

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) telecommunication business; (ii) entertainment media business and (iii) property investment business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 26.

### RESERVES

In view of the losses maintained by the Company, the directors are of the view that the Company had no reserves available for distribution as at 31 December 2004.

### PROPERTY, PLANT AND EQUIPMENT

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

### INVESTMENT PROPERTIES

The investment properties of the Group are set out in note 14 to the financial statements.

Investment properties were valued at their open market value at 31 December 2004 by Vigers Hong Kong Limited, an independent professional valuer. This valuation gave rise to a revaluation decrease of HK\$1,070,000 which has been charged to the consolidated income statement.

### SHARE CAPITAL

Details of movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2004 are set out in note 25 to the financial statements.

## DIRECTORS' REPORT

### DIRECTORS

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

*Executive directors:*

Michele Matsuda

Leung To Kwong, Valiant

Cheung Chi Fai, Frank (appointed on 25 March 2004)

Yiu Ying Fai (resigned on 12 July 2004)

*Independent non-executive directors:*

Zhou Ji, Jason

Keiji Hasegawa (appointed on 1 September 2004)

Chen Tien-yiu, Theodore (appointed on 24 September 2004)

To King Yan, Adam (resigned on 24 September 2004)

In accordance with clauses 86(2) and 87(1) of the Company's bye-laws, Messrs. Zhou Ji, Jason, Keiji Hasegawa and Chen Tien-yiu, Theodore will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the directors, including those 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.

The term of office for one of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's bye-laws while the term of office of the other two independent non-executive directors is contracted for 2 years.

### BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors and senior management are as shown below:

#### Executive directors

Michele Matsuda, aged 40, was appointed as Chairman, Chief Executive Officer and Executive Managing Director on 14 March 2003. He has more than 15 years experience in the technology sector and has expertise in technical solutions, technical management and business operational management. Mr. Matsuda has been appointed as a director of Technology Administration Division of Nomura Securities International, Inc from 1986 to 1996. He is one of the founders and a director of Trans Pacific Telecom Group, which has various telecommunication licences in UK, USA, Japan and Hong Kong.

Leung To Kwong, Valiant, aged 42, was appointed as Executive Director on 14 March 2003. Mr. Leung was graduated from the City University of New York with a Bachelor's degree in Electrical Engineering in 1986 and a master degree in business administration in 1988. He has extensive experience in telecommunication industry for more than 14 years. Mr. Leung has been appointed as senior management positions in various international companies, ranging from international network service provider, equipment vendor and Telecom Type 1 Carrier.

## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS *(Continued)*

Cheung Chi Fai, Frank, aged 42, joined the Board on 25 March 2004. Mr. Cheung holds an MBA degree from University of Technology, Sydney and is a qualified accountant and member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with a lot of experience in corporate finance exercises. He is also a veteran in the telecommunication value added services industry and was a director of New Media Corporation, a leader in the international VAS industry and involved in telecommunication's VAS business for more than 9 years.

#### Independent non-executive directors

Zhou Ji, Jason, aged 41, was appointed as Independent Non-executive Director on 16 May 2002. Mr. Zhou studied at the Medical School of Beijing University for the period from 1982 to 1985. He holds a Bachelor's degree in Electrical Engineering from Washington State University and a Master's Degree in Biomedical Engineering from Drexel University, Philadelphia, USA. In addition to Mr. Zhou's expertise on electrical and biomedical engineering, he also has extensive experience in finance and assets management field since 1994. Mr. Zhou has acted as senior management of various finance companies in USA, Hong Kong and PRC. He now acts as the General Manager of the Investment Banking Division of China Galaxy Securities Company in Beijing, PRC.

Mr. Keijiro Hasegawa, aged 61, was appointed as Independent Non-executive Director on 1 September 2004. Mr. Hasegawa holds a master degree in economics from Aoyamagakuin University and is an experienced marketing consultant and computer network engineer. He has more than 21 years of experience in the marketing and computer network building areas. Mr. Hasegawa is the President and founder of Xor Corporation, a company incorporated in Tokyo, Japan.

Professor Chen Tien-yiu, Theodore, aged 58, was appointed as Independent Non-executive Director on 24 September 2004. Professor Chen holds a master degree in business administration from The University of British Columbia and is an experienced and qualified accountant. He is a Professor and the Head of the Department of Accounting of Hong Kong Shue Yan College. He is also the Vice President of Certified Management Accountants Society of British Columbia, Canada, Hong Kong Branch. Professor Chen has over 15 years of experience in teaching and research in the academic field as well as over 20 years in management of various significant listed companies and government departments in Canada.

### SHARE OPTION SCHEMES

The Company adopted its share option scheme on 16 May 2002 ("the Option Scheme"), to adopt the changes in the Chapter 17 of the Listing Rules, under which the Company may grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards.

## DIRECTORS' REPORT

## SHARE OPTION SCHEMES (Continued)

Details of the share options outstanding as at 31 December 2004 which have been granted under the Option Scheme are as follows:

	Number of share options (in thousands)					Exercise price HK\$
	Outstanding at 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2004	
Directors:						
Michele Matsuda**	–	200,000	–	–	200,000	0.020
Leung To Kwong, Valiant	43,800	–	32,000	–	11,800	0.020
	–	10,200	–	–	10,200	0.0346
Cheung Chi Fai, Frank	–	22,000	10,000	–	12,000	0.022
	–	10,000	–	–	10,000	0.0346
Yiu Ying Fai*	43,800	–	43,800	–	–	0.020
	87,600	242,200	85,800	–	244,000	
Employees:						
Group (1)	21,450	10,000	15,150	300	16,000	0.020
Group (2)	–	70,350	40,000	3,900	26,450	0.022
Group (3)	–	1,750	750	–	1,000	0.0362
Group (4)	–	12,500	6,750	1,500	4,250	0.0346
	21,450	94,600	62,650	5,700	47,700	
Customer	5,000	–	5,000	–	–	0.020
	114,050	336,800	153,450	5,700	291,700	

\* Mr. Yiu Ying Fai (a former director) resigned on 12 July 2004.

\*\* As at the date of this report, Mr. Matsuda has exercised all his share options of the Company.

The directors consider it inappropriate to value the options as a number of factors that are crucial for the valuation cannot be determined accurately. According, such information is not disclosed in the annual report. The average closing price of the Company's shares immediately before the date on which the share options were exercised was HK4.5 cents.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance 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 year or at any time during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 December 2004, the interests and short positions of the directors and chief executive of the Company and their associates in the shares and underlying shares of the Company as recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

#### (1) Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of shares	Percentage of the issued ordinary share capital of the Company
Michele Matsuda	Held by controlled corporation ( <i>note 1</i> )	805,570,000	15.79%
Leung To Kwong, Valiant	Beneficial owner ( <i>note 2</i> )	21,000,000	0.41%

#### (2) Share options

Name of director	Capacity	Number of options held	Number of underlying ordinary share
Michele Matsuda	Beneficial owner ( <i>note 1</i> )	200,000,000	200,000,000
Leung To Kwong, Valiant	Beneficial owner ( <i>note 2</i> )	22,000,000	22,000,000

#### Notes:

- (1) Michele Matsuda held 200,000,000 options in his own name, which can be converted into 200,000,000 ordinary shares of the Company, and held 805,570,000 ordinary shares of the Company through e-Compact Limited, a company wholly owned by Anglo Japan Enterprises Limited, which is in turn beneficially owned by him. Mr. Matsuda has exercised his 200,000,000 options during January to April 2005.
- (2) Leung To Kwong, Valiant held 22,000,000 options, which can be converted into 22,000,000 ordinary shares of the Company, and held 21,000,000 ordinary shares of the Company in his own name. Mr. Leung has disposed 15,500,000 ordinary shares of the Company in March 2005.

Certain executive directors of the Company have been granted share options under the Company's share option schemes (details are set out under the section of Share Option Schemes above). These constitute interests in underlying shares of the Company under the SFO.

Save as disclosed above, as at 31 December 2004, no interests and short position in the shares or underlying shares were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(Continued)*

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 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### CONNECTED TRANSACTION

Connected transactions have been disclosed in notes 6 and 36. Other significant related party transactions entered into by the Group during the year ended 31 December 2004, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, are disclosed in notes 28 and 34 to the financial statements.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of director and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

#### Long Positions

##### (a) Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued ordinary share capital of the Company
Michele Matsuda	Held by controlled corporation <i>(note 1)</i>	805,570,000	15.79%
e-Lux Corporation	Beneficial owner <i>(note 2)</i>	390,900,000	7.66%
Yasuko-No-Denwa, Inc.	Beneficial owner	337,950,000	6.63%
Leung Kin Cheung, Patrick	Beneficial owner & held by controlled corporation <i>(note 3)</i>	281,240,000	5.51%

##### (b) Share options

Name of shareholder	Capacity	Number of share options	Number of underlying ordinary shares
Michele Matsuda	Beneficial owner <i>(note 1)</i>	200,000,000	200,000,000
Leung Kin Cheung, Patrick	Held by controlled corporation <i>(note 3)</i>	90,000,000	90,000,000

##### (c) Convertible preference shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of convertible preference shares	Percentage of the issued convertible preference shares
Leung Kin Cheung, Patrick	Held by controlled corporation <i>(note 3)</i>	2,366,666,666	77.17%
T&C Holdings Inc.	Beneficial owner <i>(note 4)</i>	700,000,000	22.83%

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS *(Continued)*

*Notes:*

1. Mr. Matsuda held 200,000,000 options in his own name and 805,570,000 ordinary shares of the Company through e-Compact Limited, a company wholly owned by Anglo Japan Enterprises Limited and beneficially owned by him. He has exercised all the options during the period from January to April 2005.
2. e-Lux Corporation entered into agreement with Station Investments Limited ("Station") in end of March 2005 to acquire 800,000,000 convertible preference shares ("CPS") from Station.
3. Mr. Leung held 12,470,000 shares of the Company in his own name and also held 90,000,000 options, 268,770,000 shares and 2,366,666,666 CPS of the Company through Station, a company beneficially owned by him. During January 2005, Station transferred the last tranche of 500,000,000 CPS to T&C Capital Limited ("T&C") which was beneficially owned by T&C Holdings, Inc. At the end of March 2005, Station also transferred 800,000,000 CPS to e-Lux Corporation. Station has converted 166,666,666 CPS into 166,666,666 ordinary shares of the Company in March 2005. At the date of this annual report, Station held 435,436,666 ordinary shares and 900,000,000 CPS of the Company.
4. T&C, beneficially owned by T&C Holdings Inc., entered into agreement with Station to acquire at maximum up to 1,200,000,000 CPS of the Company in tranches. As at 31 December 2004, Station has transferred to T&C 700,000,000 CPS and the last tranche of 500,000,000 CPS was transferred on 7 January 2005. In January 2005, T&C converted 800,000,000 CPS into 800,000,000 ordinary shares of the Company. As a result, T&C held 800,000,000 ordinary shares and 400,000,000 CPS of the Company.

### MAJOR CUSTOMERS AND SUPPLIERS

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

**Purchases**

– the largest supplier	14%
– five largest suppliers combined	44%

**Sales**

– the largest customer	31%
– five largest customers combined	48%

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

## DIRECTORS' REPORT

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

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

### **CORPORATE GOVERNANCE**

#### **Compliance with the code of best practice of the listing rules**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

#### **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 Institute of Certified Public 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's audit. The Committee comprises three independent non-executive directors, namely Zhou Ji, Jason, Keijiro Hasegawa and Chen Tien-yin, Theodore. Two meetings were held by the Audit Committee during the current financial year.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws and the laws in Bermuda.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

There is no information required to be disclosed pursuant to the Listing Rules.

## DIRECTORS' REPORT

### SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

### AUDITORS

Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years up to 31 December 2003, retired at the last annual general meeting held on 28 June 2004 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on the same day.

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

On behalf of the Board

**Michele Matsuda**

*Chairman*

Hong Kong, 19 April 2005