

## DIRECTORS' REPORT

The directors present their report together with the audited accounts of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2005.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are set out in note 31 to the accounts.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2005 is set out in note 3 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 are set out in the Consolidated Profit and Loss Account on page 33.

No interim dividend was declared (2004: Nil) and the directors do not recommend the payment of a final dividend for the year ended 31 March 2005 (2004: Nil).

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and the share options of the Company during the year are set out in notes 23(a) and 23(b) to the accounts respectively.

### RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 24 to the accounts.

### PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 11 to the accounts.

### PRINCIPAL PROPERTIES

Details of the principal properties held are set out on page 76.

### GROUP FINANCIAL INFORMATION

A summary of results, assets and liabilities of the Group for the five years ended 31 March 2005 is set out on page 75.

## DIRECTORS' REPORT

### MAJOR SUPPLIERS AND CUSTOMERS

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	25%
- five largest suppliers in aggregate	75%
Sales	
- the largest customer	20%
- five largest customers in aggregate	39%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

### DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

#### *Executive directors*

Mr. Lo Lin Shing, Simon (*Chairman*)

Ms. Yvette Ong (*Managing Director and Chief Executive Officer*)

#### *Non-executive director*

Mr. To Hin Tsun, Gerald

#### *Independent non-executive directors*

Mr. Peter Pun *OBE, JP*

Mr. Wei Chi Kuan, Kenny

Mr. Lau Wai Piu (*appointed on 28 September 2004*)

In accordance with Bye-laws 86(2) and 87 of the Company's Bye-laws, Messrs. Lau Wai Piu and Wei Chi Kuan, Kenny will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors to be independent.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 March 2005, the interests or short positions of the directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

#### (a) Long positions in issued shares

Name of director	Capacity	Number of shares interested	Percentage of shareholding
Lo Lin Shing, Simon	Interest of a controlled corporation	37,715,767 (Note)	8.63%
Lau Wai Piu	Beneficial	1,200	0.0003%

*Note: Such shares are held by Golden Infinity Co., Ltd. of which Mr. Lo Lin Shing, Simon is interested in its entire issued share capital. Accordingly, Mr. Lo is deemed to be interested in the 37,715,767 shares held by Golden Infinity Co., Ltd. under the SFO.*

#### (b) Long positions in underlying shares

Name of director	Capacity	Number of underlying shares interested	Percentage of shareholding
Lo Lin Shing, Simon	Personal	4,350,000	1.00%
Yvette Ong	Personal	4,350,000	1.00%
To Hin Tsun, Gerald	Personal	1,500,000	0.34%
Peter Pun	Personal	435,000	0.10%
Wei Chi Kuan, Kenny	Personal	435,000	0.10%
Lau Wai Piu	Personal	435,000	0.10%

Save as disclosed above and the section headed "SHARE OPTION SCHEMES" below, as at 31 March 2005, none of the directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' REPORT

### DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at 31 March 2005, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

#### Long position in the issued shares

Name of shareholder	Capacity	Number of shares	Percentage of shareholding
Golden Infinity Co., Ltd.	Beneficial owner	37,715,767	8.63%
Ku Ming Mei, Rouisa	Interest of spouse	42,065,767 <i>(Note)</i>	9.63%

*Note: Madam Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon and accordingly, she is deemed to be interested in 42,065,767 shares under the SFO.*

Save as disclosed above and those disclosed under "DIRECTORS' INTERESTS AND SHORT POSITIONS", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 March 2005.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, the following director is considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules as set out below:

Name of director	Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
To Hin Tsun, Gerald	New World Telephone Holdings Limited ("NWT") and its subsidiaries	Provision of mobile telecommunications services	Director

As the board of directors of the Company is independent from the board of the aforesaid companies and the above director is unable to control the board of the Company, the Group is capable of carrying its businesses independently of, and at arms length from, the businesses of such companies.

## DIRECTORS' REPORT

On 6 July 2004, the only subsidiary of NWT engaged in the offering of mobile telecommunications services including voice service and customized value-added services was disposed of by NWT. Thereafter, Mr. To Hin Tsun, Gerald has no interest in any business which competes or likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's businesses 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' SERVICE CONTRACTS

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

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTION SCHEMES" below, at no time during the year was the Company or any of its subsidiaries a party to any other arrangements to enable the directors or chief executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

### SHARE OPTION SCHEMES

Under the share option schemes adopted by the Company on 22 September 2000 (the "Terminated Option Scheme") and 28 August 2002 (the "Existing Option Scheme"), options were granted to certain directors and employees of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company. The Terminated Option Scheme was terminated on 28 August 2002 upon the adoption of the Existing Option Scheme by the Company.

The following is a summary of the terms of the Existing Option Scheme:

#### 1. Purpose

The purpose of the Existing Option Scheme is to provide incentives or rewards for the contribution of the participants to the Group and to enable the Group to recruit and/to retain high-calibre employees and attract human resources that are valuable to the Group.

## DIRECTORS' REPORT

### 2. Participants

The participants of the Existing Option Scheme include any director, employee, consultant, agent or advisor of the Group or any entity in which the Group holds an interest.

### 3. Number of shares available for issue

The total number of shares available for issue under the Existing Option Scheme is 29,124,805 which represents 5.89% of the issued share capital of the Company as at the date of this report.

### 4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

### 5. Option period

An option may be exercised in accordance with the terms of the Existing Option Scheme at any time during the period to be notified by the directors to the grantee, but in any event such period of time must not be more than 10 years from the date of grant.

### 6. Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

### 7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK\$1.00 as consideration for the grant.

### 8. Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for 5 trading days immediately preceding the offer date; and (iii) the nominal value of a share.

### 9. Remaining life of the scheme

The Existing Option Scheme is valid and effective for a term of 10 years commencing from 28 August 2002.

## DIRECTORS' REPORT

Details of the movement in outstanding share options, which have been granted under the Terminated Option Scheme and Existing Option Scheme, during the year are as follows:

Name or category of participant	Date of grant	Exercise price			Exercise period	Vesting period (Note 1)	Number of shares subject to options					
		As at date of grant HK\$	As adjusted by capital reorganisation HK\$	As adjusted by rights issue HK\$			As at 1 April 2004	Granted during the year (Note 3)	Capital reorganisation adjustment (Note 4)	Rights issue adjustment (Note 4)	Lapsed during the year	As at 31 March 2005
<i>Directors</i>												
Lo Lin Shing, Simon	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	2,900,000	-	1,450,000	-	4,350,000
Yvette Ong	17-04-2002	0.0520	1.04	0.6933	17-04-2002 to 16-04-2009	17-04-2002 to 16-04-2004	30,000,000	-	(28,500,000)	750,000	-	2,250,000
	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	1,400,000	-	700,000	-	2,100,000
To Hin Tsun, Gerald	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	1,000,000	-	500,000	-	1,500,000
Peter Pun	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	290,000	-	145,000	-	435,000
Wei Chi Kuan, Kenny	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	290,000	-	145,000	-	435,000
Lau Wai Piu	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	290,000	-	145,000	-	435,000
<i>Employees (including a director of certain subsidiaries)</i>	16-11-2000	0.1552 (Note 2)	-	-	16-11-2000 to 15-11-2007	16-11-2000 to 15-11-2002	4,350,000	-	-	-	(4,350,000)	-
	17-04-2002	0.0520	1.04	0.6933	17-04-2002 to 16-04-2009	17-04-2002 to 16-04-2004	25,908,000	-	(13,721,800)	276,300	(11,633,600)	828,900
	01-03-2005	0.2900	-	0.1933	01-03-2005 to 28-02-2012	01-03-2005 to 28-02-2007	-	4,465,000	-	2,232,500	-	6,697,500
							<u>60,258,000</u>	<u>10,635,000</u>	<u>(42,221,800)</u>	<u>6,343,800</u>	<u>(15,983,600)</u>	<u>19,031,400</u>

### Notes:

- The options are vested in tranches during the vesting period.
- The exercise price had been adjusted to HK\$0.1552 since 12 April 2002 after the completion of rights issue in 2002.
- On 1 March 2005, 6,170,000 share options granted to the directors and 4,465,000 share options granted to the employees under the Existing Option Scheme. The closing price of the Company's shares on 28 February 2005, the day before the grant of the share options was HK\$0.30.
- Subsequent to the capital reorganisation effective on 23 August 2004 and a rights issue of 145,624,029 shares at a subscription price of HK\$0.20 per share completed on 9 March 2005, the exercise prices and the number of shares to be issued upon full exercise of the outstanding Share Options of the Company granted under the Terminated Option Scheme and/or the Existing Option Scheme have been adjusted in accordance with the provisions of the respective schemes.

No share options were exercised during the year.

## **DIRECTORS' REPORT**

### **GROUP'S BORROWINGS**

Details of the Group's borrowings are set out in notes 21 and 22 to the accounts.

### **MATERIAL ACQUISITION OF SUBSIDIARIES**

Details of material acquisitions of subsidiaries during the year are set out in note 27(b) to the accounts.

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

Aldgate Agents Limited ("Aldgate"), a wholly-owned subsidiary of the Company had held an aggregate of 1,744 shares in the capital of Company, being the fractional shares resulting from the capital reorganization of the Company took effective on 23 August 2004. By a resolution passed at the special general meeting on the same date, the aforesaid fractional shares should be aggregated and sold, the proceeds of which to be retained for the benefit of the Company.

On 31 March 2005, Aldgate had disposed of the 1,744 shares by transferring the same to an independent third party at HK\$0.255 per share, being the closing price per the Company's share as quoted on The Stock Exchange of Hong Kong Limited on the date of transfer, of which such consideration was reached after arm's length discussion and in the best interest of Aldgate and the Company.

Apart from the foregoing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### **PRE-EMPTIVE RIGHTS**

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company was incorporated.

### **AUDIT COMMITTEE**

The audit committee of the Company currently comprises Messrs. Peter Pun, Wei Chi Kuan, Kenny and Lau Wai Piu who are independent non-executive directors of the Company and their principal duties include the review and supervision of the Company's financial reporting process, internal control procedures and relationship with the Company's external auditors.

The audited financial statements for the year ended 31 March 2005 have been reviewed by the audit committee.

### **CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

## DIRECTORS' REPORT

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the year.

### EMPLOYEES SCHEME

As at 31 March 2005, the Group employed approximately 191 full-time employees in Hong Kong and Mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Structured training programs are also offered for staff training and development.

### DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES

As at 31 March 2005, there were 436,872,087 shares of the Company (the "Shares") in issue. Based on the average closing price of the Shares of HK\$0.259 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31 March 2005, the total market capitalization (the "Total Market Capitalisation") of the Company was HK\$113,149,870.

#### (A) Advance to an entity

In compliance with Rule 13.13 of Chapter 13 of the Listing Rules, details of the advances provided by the Group to the subsidiaries of the following entity as at 31 March 2005 which in aggregate has exceeded 8% of the Total Market Capitalisation are set out below:

Name of an entity	Financial assistance HK\$'000
International Entertainment Corporation ("IEC") <i>(Notes 1 &amp; 2)</i>	12,572

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*Notes:*

1. *The Group has provided advances to the subsidiaries of IEC, namely Anbo Global Company Limited, Cyber On-Air Limited and Cyber On-Air (Asia) Limited. The interest bearing balances due to the Group as at 31 March 2005 are HK\$11,800,000. The loans are interest bearing, repayable on or before 30 June 2005 and are secured by corporate guarantee provided by IEC. Included in this amount is HK\$10,600,000 which bear interest at HIBOR+2% per annum and the remaining balance which bear interest at prime rate.*
2. *The remaining balance representing rental and administrative expenses to be reimbursed from a subsidiary of IEC, for sharing the Group's office premises and utilities which were calculated in proportion to the office space occupied. Administrative expenses were charged on actual incurred basis taking into account the headcount and/or office space occupied.*

**(B) Financial assistance to affiliated companies**

- (a) In compliance with Rule 13.16 of Chapter 13 of the Listing Rules, details of the financial assistance given to the following affiliated companies of the Group as at 31 March 2005 which in aggregate has exceeded 8% of the Total Market Capitalisation are set out below:

Name of affiliated companies	Percentage of Group's attributable interests	Financial Assistance HK\$'000
Asia V-Sat Co. Ltd. ("AVS") (Note 1)	20%	39,031
Cyber China Inc. ("CCI") (Note 2)	50%	153,247
		<u>192,278</u>

*Notes:*

1. *The Group has provided shareholder's loans to AVS and its certain subsidiaries. The amounts are interest free, unsecured and have no fixed term of repayment.*
2. *The Group has provided shareholder's loan to CCI. The amount is interest free, unsecured and has no fixed term of repayment.*

## DIRECTORS' REPORT

- (b) In compliance with Rule 13.22 of Chapter 13 of the Listing Rules, the unaudited proforma combined balance sheet of these affiliated companies as at 31 March 2005 is disclosed as follows:

	<i>HK\$'000</i>
<b>ASSETS</b>	
Non-current assets	
Property, plant and equipment	3,577
Investment in associated companies	653
	<u>4,230</u>
Current Assets	
Debtors, prepayments and other deposits	23,249
Cash and bank balances	595
	<u>23,844</u>
Current Liabilities	
Creditors, deposits and accruals	25,877
Amount due to immediate holding company	306,502
	<u>332,379</u>
Net current liabilities	<u>308,535</u>
Total assets less current liabilities	(304,305)
Non-current liabilities	
Long term loans	118,970
Net liabilities	<u><u>(423,275)</u></u>
<b>CAPITAL AND RESERVES</b>	
Share capital	45,426
Reserves	(468,701)
	<u><u>(423,275)</u></u>

## **DIRECTORS' REPORT**

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

### **AUDITORS**

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

### **POST BALANCE SHEET EVENTS**

Details of the significant events subsequent to the balance sheet date are set out in note 29.

On behalf of the Board

**Yvette Ong**

*Managing Director*

Hong Kong, 15 July 2005