

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 30th September 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 27 to the accounts.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets 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 18.

The Directors have declared an interim dividend of HK\$0.16 per ordinary share, totalling approximately HK\$70,904,000, which was paid on 27th July 2000.

The Directors recommend the payment of a final dividend of HK\$0.22 per ordinary share, totalling approximately HK\$100,628,000.

RESERVES

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$100,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 10 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

SHARE OPTIONS AND WARRANTS

Details of share options and warrants issued and exercised are set out in note 20 to the accounts.

PARTICULARS OF BANK LOANS AND OTHER BORROWINGS

The particulars of bank loans and other borrowings as at 30th September 2000 are set out in note 18 to the accounts.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Details of the Company's subsidiaries as at 30th September 2000 are set out in note 27 to the accounts.

Details of the Group's jointly controlled entity as at 30th September 2000 are set out in note 12 to the accounts.

DISTRIBUTABLE RESERVES

Details of distributable reserves of the Company as at 30th September 2000 are set out in note 21 to the accounts.

DIRECTORS

The Directors during the year were:-

Mr. SZE Tsang Fai, Johnny
Mr. SY Ching Tang, Timothy
Mr. YU Sze Kwok, Lewis
Mr. CHEUNG Wing Yin, Vigny Wiley
Mr. IP Man Tin, David *
Mr. TAI Ah Lam, Michael *

* *Independent Non-executive Directors*

In accordance with Article 116 of the Bye-Laws of the Company, Messrs. YU Sze Kwok, Lewis and IP Man Tin, David shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing on 9th April 1999. The contracts may be terminated by either party thereto, giving to the other, six months prior notice in writing.

The four Executive Directors of the Company are entitled to fixed salaries of HK\$5,660,040 per annum in aggregate and any further performance-related bonus shall be determined by the Company having regard to, inter alia, the operating results of the Group. The maximum amount of discretionary bonus available to all the Executive Directors in a financial year shall be calculated in accordance with the following scale:

| Profit after minority interests but before taxation and extraordinary items (HK\$) | Maximum % available for payment of bonus |
|--|---|
| (a) 0 - 150,000,000 | 5% thereon; |
| (b) 150,000,001 - 200,000,000 | 10% on the balance; and |
| (c) 200,000,001 + | 15% on the balance. |

In any case, the maximum amount of discretionary bonus in a financial year will not be greater than 10% of the Group's profit after minority interests but before taxation and extraordinary items.

Save as disclosed above, none of the 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. SZE Tsang Fai, Johnny, aged 40, is the Chairman and the Managing Director of the Company. He is the founder of the Group and is responsible for the overall strategic planning and business development of the Group. He is instrumental in the formulation and implementation of the business policies of the Group. Mr. Sze has over 16 years experience in and in-depth knowledge of the trading in the People's Republic of China (the "PRC"). Since the late 1980s, he has been focusing on the trading of cellular handsets in the PRC.

Mr. SY Ching Tang, Timothy, aged 27, is the Vice Chairman and the Deputy Managing Director of the Company. He joined the Group in 1997 and is responsible for the Group's corporate and financial planning. He is also instrumental in the formulation and implementation of the business policies of the Group. Mr. Sy holds a Bachelor of Science and Engineering degree from Purdue University in the US, and is a fellow member of the Hong Kong Institute of Directors. He is the brother of Mr. Sze.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Executive Directors (Continued)

Mr. YU Sze Kwok, Lewis, aged 39, is an Executive Director of the Company. He joined the Group in 1996 and is responsible for the technical development and after-market services of the Group. Mr. Yu holds a Master of Science degree in Engineering Business Management from the University of Warwick in the United Kingdom. He has over 10 years experience in research and development in the telecommunications industry. Prior to joining the Group, he worked with a Canadian telecommunications company.

Mr. CHEUNG Wing Yin, Vigny Wiley, aged 39, is an Executive Director of the Company. He joined the Group in 1998 and is responsible for the sales and marketing operations of the Group in the PRC. He holds a Bachelor of Science degree from the University of Toronto, Canada. He has over 9 years experience in the sales and marketing of engineering products.

Independent Non-executive Directors

Mr. IP Man Tin, David, aged 54, is a Non-executive Director of the Company. Mr. Ip served with the Hong Kong Government for 25 years and currently is the chief executive of Golden Land Investments PLC, a company listed on the London Stock Exchange. He holds a Bachelor of Arts degree and a Master of Public Administration degree from Hong Kong. Mr. Ip is also a member of the Chartered Institute of Marketing.

Mr. TAI Ah Lam, Michael, aged 53, is a Non-executive Director of the Company. Mr. Tai has worked for an international accounting firm for more than 12 years. He is a fellow member of the Institute of Chartered Accountants, England and Wales, and a fellow member of the Chartered Institute of Secretaries. He has over 11 years experience in mergers and acquisitions.

Senior Management

Mr. WAN Kwok Cheong, Francis, aged 42, is the Sales Director of the Group. He joined the Group in 2000 and is responsible for the sales and marketing operations of the Group. Prior to joining the Group, he was an elected Director for the Real Estate Board of Great Vancouver in Canada and had served on the Board's business practices and administration. He has over 14 years experience in the sales and marketing industry and over 6 years experience in the telecommunications industry.

Mr. PANG Leung Ming, Eric, aged 39, is the Customer Service Director of the Group. He joined the Group in 2000 and is responsible for the Group's customer service operations. He holds a Master degree in Business Administration. Prior to joining the Group, Mr. Pang was the Senior Customer Service Manager of a large US mobile telecommunications manufacturer in the PRC. He has over 18 years experience in the telecommunications industry in Hong Kong and over 8 years experience in the PRC in setting-up and running mobile phone service centres, amongst other tasks.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior Management (Continued)

Ms. AU Yen Fen, aged 45, is the Vice President of the sales and marketing department of the Group. She joined the Group in 1992 and has over 16 years experience in trading in the PRC.

Mr. SUNG Yee Keung, Ricky, aged 36, is the Vice President of the operations and logistics department of the Group. He joined the Group in 1993 and is responsible for overseeing the overall logistic operations of the Group. Mr. Sung has over 6 years experience in the customer telecommunications industry and over 11 years experience in trading in the PRC.

Mr. TAM Kam Chee, Simon, aged 41, is the Manager of the sales and marketing department of the Group. He joined the Group in 1995 and has 14 years experience in sales and marketing of which 9 years are related to trading in the PRC.

Mr. TSANG Chi Fai, aged 33, is the Chief Financial Officer of the Group. Mr. Tsang holds a Bachelor of Business degree from Charles Sturt University in Australia. He is an associate member of both the Institute of Chartered Accountants in Australia and the Hong Kong Society of Accountants. Prior to joining the Group in January 2000, Mr. Tsang had worked in a UK multinational company on the merger of their operations in South East Asia. He was also previously a manager in a large international accounting firm. Mr. Tsang has over 10 years of accounting, audit, and mergers and acquisitions experience in both Hong Kong and Australia.

Ms. YAN Ha Hung, Loucia, aged 31, is the Company Secretary of the Group. She is an associate member of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. Prior to joining the Group in 2000, Ms. Yan was the Company Secretary of a listed company in Hong Kong. She has over 8 years experience in company secretarial field.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding 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 TRANSACTIONS

During the year, a wholly owned subsidiary of the Company, Freespeech Technology Limited, has granted a loan of HK\$15 million to a non-wholly owned subsidiary of the Company, Chinese Sports Program Syndicating Company Limited, to finance its working capital requirements. The loan is unsecured, interest bearing at the prevailing prime lending rate in Hong Kong, which was 9.5% per annum at 30th September 2000 and with no fixed terms of repayment. The above balance remained outstanding as at 30th September 2000.

CONNECTED TRANSACTIONS (CONTINUED)

Apart from the above, no other significant transactions were entered into by the Group during the year ended 30th September 2000, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

DIRECTORS’ INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th September 2000, the interests of the Directors and Chief Executive in the shares and warrants of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”)), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

The Company

| Name of Director | Nature of interest | Number of shares | Number of Warrants |
|---------------------------|------------------------------|------------------|--------------------|
| Mr. SZE Tsang Fai, Johnny | Family interests (note 1) | 279,000,000 | 35,800,000 |
| Mr. YU Sze Kwok, Lewis | Personal interests | 108,000 | — |
| | Family interests (note 2) | 24,000 | — |

Note:

1. These shares are registered in the name of Optimum Pace International Limited, the entire issued share capital of which is held by LGT Trust Management as trustee of The Optimum Pace Trust, the discretionary objects of which include the wife of Mr. SZE Tsang Fai, Johnny.
2. These shares were held by Ms. WONG Sui Wan, Jacqueline, the wife of Mr. YU Sze Kwok, Lewis.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under a share option scheme approved by the shareholders of the Company, the Directors of the Company may, at their discretion, invite employees, including Executive Directors of the Company, to take up options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. As at 30th September 2000, particulars and movements of share options held by the Directors of the Company were as follows:

| Name of Director | Date of grant | Exercise price HK\$ | Number of share options outstanding as at 1st October 1999 | Options exercised during the year | Number of share options outstanding as at 30th September 2000 | Exercisable period |
|----------------------------------|----------------------|----------------------------|---|--|--|--------------------------------|
| Mr. SZE Tsang Fai, Johnny | 26th April 1999 | 1.50 | 10,000,000 | — | 10,000,000 | 25th May 1999 to 24th May 2009 |
| Mr. SY Ching Tang, Timothy | 26th April 1999 | 1.50 | 10,000,000 | — | 10,000,000 | 25th May 1999 to 24th May 2009 |
| Mr. YU Sze Kwok, Lewis | 23rd April 1999 | 1.51 | 1,000,000 | 300,000 | 700,000 | 22nd May 1999 to 21st May 2009 |
| Mr. CHEUNG Wing Yin, Vigny Wiley | 23rd April 1999 | 1.51 | 1,000,000 | — | 1,000,000 | 22nd May 1999 to 21st May 2009 |

Except as disclosed above, as at 30th September 2000, the Company did not grant any right to subscribe for shares of the Company to any Directors or Chief Executives of the Company or to their spouses or children under 18 years of age.

Subsequent to the year end, 3,000,000 ordinary shares of HK\$0.10 each were issued at a price of HK\$1.50 per share to Mr. SZE Tsang Fai, Johnny on the exercise of share options at a total cash consideration of HK\$4,500,000.

Apart from the above, at no time during the year was the Company, its holding 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30th September 2000, 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 |
|------------------------------------|----------------------------------|
| Optimum Pace International Limited | 279,000,000 |

MANAGEMENT CONTRACTS

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

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 | 62.0% |
| – five largest suppliers combined | 99.9% |

Sales

| | |
|-----------------------------------|-------|
| – the largest customer | 8.8% |
| – five largest customers combined | 31.7% |

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) had an interest in the major suppliers or customers noted above.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

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

During the year ended 30th September 2000, the Company had repurchased certain ordinary shares in the Company on The Stock Exchange of Hong Kong Limited and the particulars of which are as follows:

| Trading date | Number of ordinary shares of HK\$0.10 each purchased | Price per share | | Total paid HK\$'000 |
|---------------------|---|------------------------|--------------------|----------------------------|
| | | Highest HK\$ | Lowest HK\$ | |
| 5th April 2000 | 500,000 | 8.50 | 8.50 | 4,250 |
| 5th April 2000 | 60,000 | 10.50 | 10.50 | 630 |
| 17th April 2000 | 626,000 | 8.00 | 7.15 | 4,816 |
| 19th April 2000 | 114,000 | 8.00 | 8.00 | 912 |
| 20th April 2000 | 304,000 | 8.00 | 7.85 | 2,398 |
| | <u>1,604,000</u> | | | <u>13,006</u> |

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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 of the Listing Rules throughout the year, except that Independent Non-executive Directors are not appointed for the specific terms, but 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. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The Audit Committee, comprising two Independent Non-executive Directors, namely Mr. IP Man Tin, David and Mr. TAI Ah Lam, Michael, and one Executive Director, Mr. SY Ching Tang, Timothy, was established on 27th June 2000.

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 Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice in 2000 in conjunction with the auditors to review the internal controls, interim results and final financial statements of the Group prior to recommending them to the Board for approval.

PENSION SCHEME ARRANGEMENTS

The Group did not contribute to any provident fund scheme for its employees during the year.

From 1st December 2000, the Group started its contributions to a defined contribution retirement scheme which is available to all employees of the Group. Contributions to the scheme by the Group and employees are calculated at a percentage of employees' basic salaries.

AUDITORS

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

On behalf of the Board

SZE Tsang Fai, Johnny

Chairman

Hong Kong, 6th December 2000