

## Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

### Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In order to diversify its information technology businesses, the Group acquired a new subsidiary in the current year, the principal activities of which are the provision of broadband Internet equipments, network security software and business software systems.

### Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

### Results

The Group's results for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 45 to 108.

### Summary financial information

The following is a summary of the published consolidated/combined results and the assets, liabilities and minority interests of the Group, prepared on the basis set out in notes 1 and 2 below. The amounts for each year in the financial information summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements. The effect of this change in accounting policy is that prior year adjustments have been made to reduce the Group's current liabilities as at 31 December 2000 and 1999 by HK\$1,810,000 and HK\$9,016,000 respectively, as a result of the reclassification of the final proposed dividend recognised as a current liability at these prior year ends to the reserves section of the balance sheets.

## Report of the Directors

### Summary financial information (continued)

#### Results

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	576,387	417,247	350,298	251,490	171,857
PROFIT/(LOSS) BEFORE TAX	(84,323)	20,712	42,405	27,780	21,623
Tax	(333)	(871)	(6,205)	(4,771)	(3,688)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(84,656)	19,841	36,200	23,009	17,935
Minority interests	(4,152)	(1,628)	(1,922)	(30)	(270)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(88,808)	18,213	34,278	22,979	17,665

## Report of the Directors

### ASSETS, LIABILITIES AND MINORITY INTERESTS

		31 December		
	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000
NON-CURRENT ASSETS	137,165	94,675	27,983	6,152
CURRENT ASSETS	400,488	378,610	245,195	175,589
CURRENT LIABILITIES	(239,205)	(128,364)	(139,564)	(151,651)
NET CURRENT ASSETS	161,283	250,246	105,631	23,938
TOTAL ASSETS LESS CURRENT LIABILITIES	298,448	344,921	133,614	30,090
NON-CURRENT LIABILITIES	(629)	(1,529)	(1,833)	(1,037)
MINORITY INTERESTS	(52,072)	(4,540)	(2,158)	(544)
	245,747	338,852	129,623	28,509

#### Notes:

1. The summary of the published combined results of the Group for each of the two years ended 31 December 1998 has been extracted from the Company's prospectus dated 22 June 1999 (the "Prospectus"). The summary was prepared based on the audited financial statements of the companies then comprising the Group as at 31 December 1998, after appropriate adjustments and reclassifications, as if the Group structure in the Prospectus had been in existence throughout these financial years.
2. As the Company was incorporated on 29 March 1999, the only published consolidated/combined balance sheets are those as at 31 December 1998, 1999, 2000 and 2001. The consolidated/combined balance sheets as at 31 December 1998 and 1999 are extracted from the published financial statements for the year ended 31 December 1999, prepared on the basis as if the Group had been in existence for each of these years.

## Report of the Directors

### Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

### Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 26 to the financial statements.

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

### Distributable reserves

At 31 December 2001, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus of HK\$39,431,000 is currently unable to be distributed. The Company's share premium account, in the amount of HK\$277,121,000 at 31 December 2001, may be distributed in the form of fully paid bonus shares.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### Purchase, redemption or sale of listed securities of the Company

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

## Report of the Directors

### Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for 51% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27% of the Group's total purchases.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

### Directors

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

#### Executive directors:

Mr. Chan Tze Ngon, Ron

Mr. Tang Kin Hung, Barry

Mr. Chow Siu Lam, Cliff

Ms. Teo Chor Khin, Jismyl

(appointed on 1 February 2002)

Mr. Luk Chung Po, Terence

(resigned on 31 December 2001)\*

Mr. Ng Kin Wah, Francis

(resigned on 31 March 2001)

#### Non-executive directors:

Mr. Luk Chung Po, Terence

(appointed on 31 December 2001)\*

Mr. Derek Peter Althorp

(resigned on 22 October 2001)

#### Independent non-executive directors:

Dr. Lo Siew Kiong, John

Dr. Chou Tao Hsiung, Joseph

\* Mr. Luk Chung Po, Terence resigned as an executive director on 31 December 2001 and was appointed as a non-executive director on the same date.

## Report of the Directors

In accordance with bye-law 111 of the Company's bye-laws, Mr. Luk Chung Po, Terence and Mr. Tang Kin Hung, Barry will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Apart from Mr. Chan Tze Ngon, Ron, all the other directors of the Company, including the non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's bye-laws.

### Directors' and senior management's biographies

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 24 to 27 of this annual report.

### Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

Save as disclosed in note 31 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### Related party transactions and connected transactions

Details of the related party transactions and connected transactions of the Group are set out in note 31 to the financial statements.

## Report of the Directors

### Directors' interests in share capital

At 31 December 2001, the interests of the directors and their associates in the issued share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Number of issued ordinary shares of HK\$0.10 each in the Company held Personal interests	Percentage of holding
Mr. Chan Tze Ngon, Ron	82,614,000	22.8
Mr. Luk Chung Po, Terence	39,830,000	11.0
Mr. Tang Kin Hung, Barry	12,600,000	3.5

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Report of the Directors

### Share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors and other employees of the Group. The Scheme was adopted by the Company on 12 June 1999 and became effective on 6 July 1999 and, unless otherwise cancelled or amended, will remain in force up to 11 June 2009.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 7,502,000, which represented approximately 2.07% of the Company’s shares in issue as at that date.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing price of the Company’s shares traded on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the shares.



## Report of the Directors

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

Grantee	Number of share options			At 31 December 2001	Date of grant*	Share price of the Company at grant date**	Exercise price***	Exercise period of share options
	At 1 January 2001	Granted during the year	Cancelled during the year					
Directors:								
Mr. Chow Siu Lam, Cliff	500,000	—	—	500,000	31 May 2000	HK\$2.60	HK\$1.82	31 May 2001 to 30 May 2010
	—	400,000	—	400,000	24 May 2001	HK\$1.19	HK\$0.91	24 May 2002 to 23 May 2011
	500,000	400,000	—	900,000				
Mr. Ng Kin Wah, Francis	1,320,000	—	(1,320,000)	—	21 Jan 2000	HK\$3.175	HK\$2.532	21 Jan 2001 to 20 Jan 2010
	1,820,000	400,000	(1,320,000)	900,000				
Other employees:								
In aggregate	3,658,000	—	(1,460,000)	2,198,000	21 Jan 2000	HK\$3.175	HK\$2.532	21 Jan 2001 to 20 Jan 2010
	200,000	—	—	200,000	29 Sept 2000	HK\$2.90	HK\$2.108	29 Sept 2001 to 28 Sept 2010
	750,000	—	(700,000)	50,000	27 Dec 2000	HK\$1.67	HK\$1.481	27 Dec 2001 to 26 Dec 2010
	—	100,000	(100,000)	—	26 March 2001	HK\$1.54	HK\$1.2	26 March 2002 to 25 March 2011
	—	4,800,000	(646,000)	4,154,000	24 May 2001	HK\$1.19	HK\$0.91	24 May 2002 to 23 May 2011
	4,608,000	4,900,000	(2,906,000)	6,602,000				
Total	6,428,000	5,300,000	(4,226,000)	7,502,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the options.

\*\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

## Report of the Directors

Summary details of the Scheme are also set out in note 26 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in respect of share option schemes, which has come into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the Scheme of the Company and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's forthcoming shareholder's meeting for the approval of the said adoption of the new share option scheme and termination of the Company's existing share option scheme.

### Substantial shareholders

Other than the shares held by certain directors as duplicated in the section headed "Directors' interests in share capital" above, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance.

### Post balance sheet event

Details of significant post balance sheet event of the Group are set out in note 32 to the financial statements.

## Report of the Directors

### Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by this annual report, except that the non-executive directors of the Company were not appointed for specific terms but were subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws. The Company established an audit committee in 1999, which comprises two independent non-executive directors, in accordance with paragraph 14 of the Code of Best Practice. The audit committee meets regularly mainly to consider the nature and scope of audit reviews, the effectiveness of the Company's internal control systems and compliance with the relevant rules and regulations.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Tze Ngon, Ron**

*Chairman*

Hong Kong

19 April 2002