

Report of the Directors

The directors submit herewith their annual report together with the audited statement of accounts for the year ended June 30, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding. The principal activities of the subsidiaries which materially affected the results and assets of the Group during the year were property investment in Hong Kong and minority investments in early stage wireless technology companies in Asia.

Investment activities in the wireless technology sector are expected to increase in the future. Both early and late stage companies with substantial growth opportunities in the Asian wireless communications area are actively being sought. Currently, the major sourcing activity for these investment activities is being conducted in Greater China, Japan, South Korea and the North American west coast. The investment opportunities being sought are mainly in the enabling technologies and services necessary for future wireless development. A management team with significant experience in this area has been developed during the year.

The sole contributor to turnover is rental income from property investments in Hong Kong.

All of the activities substantially affecting the turnover and assets of the Group during the year were carried out in Hong Kong, although one of the minority investments is located in the United States and another in South Korea.

SEGMENTAL INFORMATION

An analysis of the turnover and major contribution to operating profit of the Group by principal activities is shown in Note 3 on the accounts.

No geographical analysis is shown as the activities of the Group relating to the turnover and contribution are carried out in Hong Kong.

ACCOUNTS

The consolidated results of the Group for the year ended June 30, 2001 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 28 to 51.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers represented 89% of the Group's total turnover with the largest customer accounting for 40% of the Group's total turnover.

MAJOR CUSTOMERS AND SUPPLIERS (CON'T)

In relation to the Group's purchases from suppliers providing administrative services, the aggregate purchases attributable to the Group's five largest suppliers was 45% of the Group's total purchases with the largest supplier accounting for 23% of the Group's total purchases.

Dao Heng Bank Limited ("DHB"), Dao Heng Securities Limited ("DHS") and Dao Heng Fund Management Limited ("DHFM") are three of the five largest customers of the Group during the year.

DHB is a wholly-owned subsidiary of Dao Heng Bank Group Limited ("DHBG") which was a subsidiary of Guoco Group Limited ("Guoco") until June 29, 2001. DHBG ceased to be a subsidiary of Guoco as a result of Guoco's disposal of its entire interest in DHBG on June 29, 2001. Guoco is a substantial shareholder of the Company. DHS and DHFM are wholly-owned subsidiaries of Guoco.

Dao Heng Property Management Limited and Guoco Management Company Limited, wholly-owned subsidiaries of Guoco, are two of the five largest suppliers of the Group during the year.

Save as disclosed above, none of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2000: HK\$2,000).

DIVIDENDS

The directors do not recommend the payment of a final dividend.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the share capital, share options and warrants of the Company are set out in Note 21 on the accounts. The warrants of the Company expired on July 31, 2000.

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Report of the Directors

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 13 on the accounts.

BORROWING COSTS CAPITALISATION

No borrowing costs were capitalized by the Group during the year (2000: Nil).

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 22 on the accounts.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in Note 14 on the accounts.

DIRECTORS

The directors during the financial year were:

Mr. Claes Ake Gustaf Dahlbäck – *Chairman*

Mr. Erik Börje Ekholm

Ms. Winnie Fok Kin Wah

Mr. Galeazzo Scarampi del Cairo

Mr. Kjell Anders Fredrik Sörme

* Mr. Kwek Leng Hai

* Mr. Tan Lim Heng

** Mr. Volker Stoeckel

(resigned on December 31, 2000)

** Mr. David Michael Norman

** Mr. William Ping Tai

(appointed on November 6, 2000)

Mr. James Eng, Jr.

(appointed as alternate director to

Mr. Kwek Leng Hai on March 9, 2001)

* *Non-executive director*

** *Independent non-executive director*

In accordance with Article 104(A) of the Company's Articles of Association, Messrs. Kwek Leng Hai and Tan Lim Heng and Miss Winnie Fok Kin Wah will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS (CON'T)

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

The non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation at annual general meetings in accordance with the Articles of Association of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at June 30, 2001, the interests of the directors and chief executives in the securities of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| | Number of Shares Held | | | | Total Interests |
|--------------------------------|-----------------------|------------------|---------------------|-----------------|-----------------|
| | Personal Interests | Family Interests | Corporate Interests | Other Interests | |
| Director | | | | | |
| Claes Ake Gustaf Dahlbäck | 1,000,000 | – | – | – | 1,000,000 |
| Winnie Fok Kin Wah | 1,012,000 | – | – | – | 1,012,000 |
| Galeazzo Scarampi del Cairo | 1,200,000* | – | – | – | 1,200,000 |
| Tan Lim Heng | 19,840,000 | – | – | – | 19,840,000 |
| Alternate Director | | | | | |
| James Eng, Jr. | 200,000 | – | – | – | 200,000 |
| Chief Executive Officer | | | | | |
| Michael David Ricks | 1,506,000 | – | – | – | 1,506,000 |

* The shares interests were jointly owned with other parties.

Report of the Directors

20

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2001, those persons having an interest of 10% or more of the Company's issued capital, as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance or as otherwise known to the directors of the Company were as follows:

| Name | Number of Ordinary Shares | | Note |
|----------------------------------------------|---------------------------|-------------------|------|
| | Direct Interest | Indirect Interest | |
| Sherbourne Limited | 613,600,000 | – | |
| Investor Capital Partners - Asia Fund, L.P. | – | 613,600,000 | 1 |
| Investor Capital Management Asia Limited | – | 613,600,000 | 1 |
| Investor Investment Capital Partners Limited | – | 613,600,000 | 1 |
| Investor Trading Ltd. | – | 613,600,000 | 1 |
| Investor Growth Capital AG | – | 613,600,000 | 1 |
| Investor Investment imGO Limited | 416,000,000 | – | |
| Investor Growth Capital Limited | – | 416,000,000 | 2 |
| Investor Growth Capital Holding B.V. | – | 416,000,000 | 2 |
| Expibel Holding AB | – | 416,000,000 | 2 |
| Ericsson Holding International B.V. | 499,200,000 | – | |
| Telefonaktiebolaget LM Ericsson | – | 499,200,000 | 3 |
| Investor AB | – | 1,528,800,000 | 4 |
| Knut and Alice Wallenberg Foundation | – | 1,528,800,000 | 4 |
| GL Holdings Limited | 537,324,824 | – | |
| Guoco Group Limited | – | 739,934,824 | 5 |

Notes:

1. By virtue of Section 8 of the SDI Ordinance, all these companies were deemed to have interests in 613,600,000 shares in the Company held by Sherbourne Limited.
2. By virtue of Section 8 of the SDI Ordinance, all these companies were deemed to have interests in 416,000,000 shares in the Company held by Investor Investment imGO Limited.
3. Ericsson Holding International B.V. is a wholly-owned subsidiary of Telefonaktiebolaget LM Ericsson. By virtue of Section 8 of the SDI Ordinance, Telefonaktiebolaget LM Ericsson was deemed to have an interest in 499,200,000 shares in the Company held by Ericsson Holding International B.V..
4. By virtue of Section 8 of the SDI Ordinance, these companies were deemed to have interests in 613,600,000 shares, 416,000,000 shares and 499,200,000 shares in the Company held by Sherbourne Limited, Investor Investment imGO Limited and Ericsson Holding International B.V. respectively.
5. By virtue of Section 8 of the SDI Ordinance, Guoco was deemed to have corporate interests in 537,324,824 shares held by GL Holdings Limited, a wholly-owned subsidiary of Guoco and 202,610,000 shares held by another company, First Capital Holdings (HK) Pte Ltd.

BOARD AUDIT COMMITTEE

The Company established a Board Audit Committee with written terms of reference on January 18, 1999. The terms of reference of the Audit Committee were revised on May 31, 2000 and March 9, 2001. The Audit Committee previously comprised Messrs. Volker Stoeckel, David Michael Norman and Tan Lim Heng. Following his resignation as director of the Company in December 2000, Mr. Volker Stoeckel ceased to act as an Audit Committee member. Mr. William Ping Tai was appointed to act as a member of the Audit Committee on March 9, 2001. Currently, the Audit Committee comprises Messrs. David Michael Norman, Tan Lim Heng and William Ping Tai.

The Audit Committee meets regularly to consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

INVESTMENT COMMITTEE

An Investment Committee was established in May 2000. The Committee is composed of the following members from our Board of Directors: Messrs. Claes Ake Gustaf Dahlbäck (who serves as Chairman of the Investment Committee), Galeazzo Scarampi del Cairo, Erik Börje Ekholm and Kjell Anders Fredrik Sörme. With extensive investments experience in venture capital, private equity and the telecommunications industry, the Investment Committee is responsible for the review and approval of all Company investments developed by the management team.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Pursuant to the Code of Best Practice of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Audit Committee should be appointed from amongst the non-executive directors and a majority of the non-executive directors should be independent. Given Mr. Volker Stoeckel resigned from the Board and ceased to act as Audit Committee member in December 2000, the Audit Committee comprised Mr. David Michael Norman, independent non-executive director and Mr. Tan Lim Heng, non-executive director since then. In order to fulfill the requirement as recommended by the Code of Best Practice, Mr. William Ping Tai, independent non-executive director, was appointed to become an Audit Committee member effective from March 9, 2001.

Save as aforementioned, the Company has complied throughout the year with the Code of Best Practice adopted by the Company based on the guidelines set out in the Listing Rules.

CONNECTED TRANSACTIONS

Tenancy agreements

On August 25, 1998, a tenancy agreement was entered into between Supreme Goal Investments Limited (“SGIL”), a wholly-owned subsidiary of the Company, and DHS, a wholly-owned subsidiary of Guoco, a substantial shareholder of the Company, in respect of the letting of Portion A of the 12th Floor of The Center, 99 Queen’s Road Central, Hong Kong with a gross floor area of approximately 16,730 sq.ft. to DHS for a term of two years commencing from October 12, 1998 at a monthly rental of HK\$468,440. On September 18, 2000, the tenancy was renewed for a lease term of two years commencing from October 12, 2000, immediately following the expiry of the previous lease, at a monthly rental of HK\$384,790. There was an option on the part of DHS to renew the lease for a further two years at market rental to be agreed between the parties.

On August 25, 1998, a tenancy agreement was entered into between SGIL and DHFM, a wholly-owned subsidiary of Guoco, in respect of the letting of Portion B of the 12th Floor of The Center with a gross floor area of approximately 6,978 sq.ft. to DHFM for a term of two years commencing from October 12, 1998 at a monthly rental of HK\$195,384. On September 18, 2000, the tenancy was renewed for a lease term of two years commencing from October 12, 2000, immediately following the expiry of the previous lease, at a monthly rental of HK\$160,494. There was an option on the part of DHFM to renew the lease for a further two years at market rental to be agreed between the parties.

On January 15, 1999, a tenancy agreement was entered into between W.C.H. Limited (“WCH”), a wholly-owned subsidiary of the Company, and DHB, a subsidiary of Guoco up to June 29, 2001, in respect of the letting of the premises at 33rd, 34th and 35th Floors of Wu Chung House, No.213 Queen’s Road East, Hong Kong with a gross floor area of approximately 73,674 sq.ft. to DHB for a term of two years commencing from January 15, 1999 at a monthly rental of HK\$1,105,110. On January 29, 2001, the tenancy was renewed for a lease term of three years commencing from January 15, 2001, immediately following the expiry of the previous lease, at a monthly rental of HK\$810,414. There was an option on the part of DHB to renew the lease for a further three years at market rental to be agreed between the parties.

On February 1, 1999, Wanchai Property Investment Limited (“WPIL”), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with DHB in respect of the letting of the 19th Floor of the Overseas Trust Bank Building, 160 Gloucester Road, Hong Kong with a gross floor area of approximately 7,344 sq.ft. to DHB for a term of two years commencing from February 1, 1999 at a monthly rental of HK\$110,160. On January 29, 2001, the tenancy was renewed for a lease term of three years commencing from February 1, 2001, immediately following the expiry of the previous lease, at a monthly rental of HK\$80,784. There was an option on the part of DHB to renew the lease for a further three years at market rental to be agreed between the parties.

CONNECTED TRANSACTIONS (CON'T)***Tenancy agreements (con't)***

On September 18, 2000, a tenancy agreement was entered into between SGIL and DHS in respect of the letting of Unit 10 on the 15th Floor, The Center with a gross floor area of 2,460 sq.ft. to DHS for a term of two years commencing from August 1, 2000 at a monthly rental of HK\$57,810. There was an option on the part of DHS to renew the lease for a further two years at market rental to be agreed between the parties.

On September 18, 2000, a tenancy agreement was entered into between WPIL and DHB in respect of the letting of the 17th and 18th Floors, Overseas Trust Bank Building with a gross floor area of approximately 14,328 sq.ft. to DHB for a term of three years commencing from September 1, 2000 at a monthly rental of HK\$171,936. There was an option on the part of DHB to renew the lease for a further three years at market rental to be agreed between the parties.

Sale of properties

Pursuant to the conditional agreement dated March 25, 2000 ("Subscription Agreement") on subscription of new shares in the Company by Investor AB and Ericsson Holding International B.V., the Company had on September 5, 2000 entered into an agreement which was effected and completed by way of instrument of transfer with GL Holdings Limited for the disposal of its entire issued share capital in Scorewell Corporation (which has a 50% interest in a project for the development of the property situated at 24-26 Kimberley Road, 55-61 Carnarvon Road, 38-40 Kimberley Street, Tsim Sha Tsui, Kowloon) and the net amount due to the Company by Scorewell Corporation at a consideration of HK\$5,000,000.

Pursuant to the Subscription Agreement, the Company agreed to sell its entire issued share capital in Reunification Properties Limited (which has a 25% interest in a project for the development of the property situated at No.152 Tai Hang Road, Hong Kong) and the net amount due to the Company by Reunification Properties Limited to Guoco at a consideration of HK\$107,507,000. The transaction was effected and completed on January 16, 2001.

Report of the Directors

24

CONNECTED TRANSACTIONS (CON'T)

Put option agreements

On March 25, 2000, Guoco and the Company entered into three put option agreements whereby Guoco had granted in favour of the Company three separate options ("Options") to require Guoco to purchase all (but not part) of the Company's interests in each of SGIL, WCH and WPIL at an aggregate consideration of approximately HK\$606,745,000. Particulars of the three Options were as follows:

| Owner of the Property | Property located at | Exercise Price (HK\$) |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| (a) SGIL | 12th and 15th Floors, The Center, 99 Queen's Road Central, Hong Kong | 286,740,000 |
| (b) WCH | 33rd, 34th and 35th Floors, Wu Chung House, 213 Queen's Road East, Hong Kong | 181,488,000 |
| (c) WPIL | 17th-19th, 22nd, 24th-27th Floors, Penthouse & Car Parks 9-14 on 2nd Floor, Overseas Trust Bank Building, 160 Gloucester Road, Hong Kong | 138,517,000 |
| | | 606,745,000 |

The Options are exercisable during the period from May 30, 2001 to November 29, 2001.

Property management agreement

On May 29, 2000, the Company entered into three separate management agreements with Dao Heng Property Management Limited, a wholly-owned subsidiary of Guoco, for the provision of various property management services to SGIL, WCH and WPIL at an aggregate fee of HK\$330,000 per month. The term of these agreements is for the period from May 29, 2000 to the exercise of the Options or such earlier time where the owner's interest in its existing investment properties has been disposed of.

CONNECTED TRANSACTIONS (CON'T)

Services agreement and banking services arrangement

On January 21, 1997, the Company entered into an agreement for services ("Service Agreement") with Guoco Management Company Limited ("GMCL"), a wholly-owned subsidiary of Guoco, for the provision of various management, administrative, financial, legal and other services to the Company and its subsidiaries on a cost reimbursement basis plus 10%. Either party may terminate the agreement by giving not less than three months' notice in writing. Pursuant to a variation agreement entered into between both parties on May 29, 2000, the consideration for the services provided was fixed at HK\$100,000 per month and either party may terminate the Service Agreement after September 30, 2000 by giving one month's notice. The Service Agreement was terminated on March 31, 2001.

DHB and/or its subsidiaries provides services to the Company and its subsidiaries in the ordinary course of its banking business including, inter alia, deposit taking, cheque clearing, remittance, the provision of account services in a variety of currencies, nominee and custodian services and occasionally short term credit accommodation. All services provided by DHB and/or its subsidiaries are in the ordinary course of business and on normal commercial terms.

The independent non-executive directors of the Company have reviewed the Service Agreement and banking services provided by DHB and/or its subsidiaries and confirm that the transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company are concerned and in accordance with the terms of the aforesaid agreements governing such transactions.

Apart from the above, no contract of significance, to which the Company or any of its subsidiaries or its holding company or any subsidiary of its holding company was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the financial year, Mr. Kwek Leng Hai and Mr. Tan Lim Heng have been or are directors of Guoco Group Limited and certain of its subsidiaries and/or related companies which are engaged in a diverse range of business, including property investment and development.

The above directors are considered as having interests in business apart from the Group's business, which is likely to compete, directly or indirectly, with the Group's business under paragraph 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Report of the Directors

26

Annual Report 2001

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries or its holding company or any subsidiary of its holding company 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.

CHANGE OF COMPANY'S NAME

By a special resolution passed on November 17, 2000 which was approved by the Registrar of Companies, the Company adopted the Chinese name “建聯通有限公司” as part of its legal name with effect from November 29, 2000.

PROPERTIES

Particulars of the properties held by the Group are shown on page 52.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 53 and 54 of the annual report.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

Claes Ake Gustaf Dahlbäck

Chairman

Hong Kong, September 12, 2001