

REPORT OF THE BOARD

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the twelve months ended 31 March 2001 (2000: nil).

MAJOR EVENTS OF THE GROUP DURING THE PERIOD

Sub-division of Shares

On 10 April 2000, the issued and unissued shares of HK\$0.10 each of the Company were sub-divided on the basis that each share was sub-divided into four shares of HK\$0.025 each.

Issue of Bonus Warrants

On 26 April 2000, the Company issued to its then shareholders one bonus warrant for every five shares held and 932,748,404 warrants were accordingly created. Each warrant confers the holder upon the right to subscribe in cash for one ordinary share of HK\$0.025 each in the Company at an initial subscription price of HK\$0.375 per share, subject to adjustment, at any time between 28 April 2000 and 27 April 2002. As at 31 March 2001, 43,604 warrants have been exercised to subscribe for the Company's shares and 932,704,800 warrants remained unexercised.

Change of Financial Year-end Date

In order to comply with the accounting requirement of its holding company, Hikari Tsushin, Inc ("Hikari"), the Company changed its financial year-end date from 31 March to 31 July, thus the current fiscal period covers a sixteen-month period from 1 April 2000 to 31 July 2001 (the "Current Fiscal Period"). Accordingly, the announcement of the final results for the Current Fiscal Period and the distribution of the relevant financial report will be made on or before 30 November 2001.

Change of Directors and Chief Executive Officer

At the Annual General Meeting of the Company held on 26 September 2000, Mr SAITO Masahide and Miss KATO Akiko retired as Directors of the Company. On the same date, Mr SUZUKI Masanori was appointed Chairman of the Company and Mr WONG Kui Shing, Danny was appointed Chief Executive Officer of the Company.

On 27 September 2000, Mr AKITA Niro and Miss MATSUSHITA Junko were appointed Directors of the Company, however, both of them resigned as Directors of the Company effective 17 March 2001.

On 17 March 2001, Mr WONG Kui Shing, Danny, Chief Executive Officer of the Company, and Mr KAN Kwok Shu were appointed Directors of the Company.

Transaction with Holding Company

In January and February 2001, the Company entered into an agreement and a supplemental agreement with Hikari. Pursuant to these agreements, the Company procured its wholly-owned subsidiaries to purchase equity interests in six companies engaging in Internet or Internet-related activities from Hikari. At the Special General Meeting of the Company held on 27 February 2001, approval from shareholders has been obtained and the total consideration for the transaction was US\$23,712,400. Details of the transaction were stated in the Company's circular to the holders of its securities dated 10 February 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the twelve-month period ended 31 March 2001, the Group had an unaudited net profit attributable to shareholders of approximately HK\$14 million, as compared with a net loss of approximately HK\$114 million recorded for the year ended 31 March 2000. Accordingly, the basic earnings per share of the Group was HK0.30 cent (for the year ended 31 March 2000: loss per share HK9.02 cents).

Business Review

The twelve-month period under review witnessed the transformation and launch of new Investment Business by the Group. The establishment of the Investment Business has been primarily intending to make various investments in high technology sector, particularly with a view to creating synergic enhancement amongst them and us. We have started to conduct a range of Internet and telecommunication-related activities in the Asia-Pacific region and the contribution by the Investment Business to the profit before tax of the Group was amounted to HK\$16 million. However, to reflect the unfavourable capital market condition, we have reduced the fair value of long-term investments by HK\$145 million. The Group is comfortable to the long-term business prospects of these investments.

During the period, we have built up strategic alliances, including making investments, with strong partners. These partners are engaging in Internet or Internet-related Business in Asia-Pacific region, and focussing on running portals and e-Commerce platforms, and provision of Internet solution services, Internet access services and online financial services.

The Group has also endeavoured to improve the performance of the Manufacturing Business throughout the twelve-month period covered by this interim report, and there was an improvement in performance when compared with that of last corresponding period. These were mainly due to the recognition of our self-produced alkaline batteries by our customers, the increases in sales of the Group's products of higher gross yield and our dedication to reducing production wastage. Further, during the period under review, the Group has also co-operated with certain overseas famous corporations for the production of ODM and OEM electronic finished products.

Financial Review

As at 31 March 2001, the Group had cash and bank balances in aggregate of approximately HK\$251 million. The liquidity position of the Group was as follows:

	At 31 March 2001	At 31 March 2000
Liquid ratio	2.60	5.29
Ratio of total liabilities to shareholders' equity	0.35	0.30

During the twelve-month period under review, the Group used part of the proceeds from the subscription of new shares and the issuance of the convertible note taken place on 10 March 2000 to acquire investments in Internet and mobile phone-related sectors, thus resulting in a decrease in the liquid ratio. The Group has continuously placed most of the remaining funds in US dollar time deposits with sound financial institutions so as to minimise unfavourable risk factors, such as currency risk, credit risk and market risk and at the same time to enhance the return of capital. The Group will continue to put its financial resources to good use to develop the existing businesses.

As at 31 March 2001, the Group had outstanding bank borrowings of approximately HK\$74 million, out of which HK\$49 million represented the outstanding trust receipt loans. Most of these trust receipt loans were utilised to finance the purchases of raw materials. As at 31 March 2001, the balance of trust receipt loans increased when compared with that of last year and the increment was in proportion to the increase in the turnover.

Beside the trade finance, the Group's Manufacturing Business has also maintained several term loans and finance leases, totalling approximately HK\$25 million outstanding as at 31 March 2001, and most of which had been initially utilised to finance the Group's acquisition of production facilities in the PRC.

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Prospects

Entering into the new millennium, it has been expected that the Internet and mobile phone-related sectors will flourish. In the PRC and Asia-Pacific region, the growth and penetration rates of Internet and mobile phone are very promising. The impending launch of 3G (the Third Generation) wireless services will speed up the usage of e-Commerce and m-Commerce and offer new opportunities for the telecommunication and IT-related businesses, particularly in China.

With the slowdown of the global economy, the business environment for local manufacturers is cautiously optimistic. Ongoing market competition will continue to exert pressure on prices. The Group will consolidate its battery business whilst strengthening the research and development of the silicone rubber product business to maintain its competitive edge. The Group has taken steps to enlarge its customer base and has been co-operating with several reputable overseas corporations to develop electronic consumer products, which have successfully penetrated into the markets in Japan and the USA.

Despite the business environment has rendered fund-raising opportunities for the high technology sector costly and difficult, the Group will continue to adopt a prudent investment policy in selecting strategic partners with sound financial fundamentals, viable business models and good management background. With the entry of the PRC into the World Trade Organisation, we expect to see more business opportunities for the Group and we shall continue to explore and identify these opportunities.

Staffing

As at 31 March 2001, the Group has employed more than 5,000 employees in both the PRC and Hong Kong. Remuneration packages are reviewed annually with reference to the market trend and prevailing legislation. During the twelve months ended 31 March 2001, share options have been granted to certain Directors and employees of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES

I Securities

(i) The Company

As at 31 March 2001, none of the Directors or chief executive had any interests in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") 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") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(ii) Associated corporation

As at 31 March 2001, the following Directors had interests in the shares of Hikari, the holding company of the Company:

Name	Personal Interest	Number of Shares		Total
		Family Interest	Corporate Interest *	
SUZUKI Masanori	2,100.0000	–	35.1160	2,135.1160
ABE Kazuhiko	–	–	97.1680	97.1680
TSUJIGUCHI Takashi	–	–	53.5620	53.5620

* The corporate interests of Messrs Suzuki, Abe and Tsujiguchi arise through their payments into Hikari Tsushin Juyoin Mochikabu-Kai, which is an employee fund of Hikari and holds Hikari's shares for its employees.

II Share Options

(i) The Company

As at 31 March 2001, the Directors and chief executive had the following interests in options to subscribe for shares ("Option Shares") in the Company (at a consideration of HK\$1.00 per option) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

Name	Date of Grant	Number of Option Shares	Exercisable Period	Exercise Price
				(HK\$)
SUZUKI Masanori	20 April 2000	40,000,000	20 October 2000 – 19 April 2003	0.7392
	12 December 2000	30,000,000	12 June 2001 – 11 May 2003	0.2096
ABE Kazuhiko	20 April 2000	12,000,000	20 October 2000 – 19 April 2003	0.7392
	12 December 2000	23,000,000	12 June 2001 – 11 May 2003	0.2096
TSUJIGUCHI Takashi	20 April 2000	12,000,000	20 October 2000 – 19 April 2003	0.7392
YUEN Tin Fan, Francis	17 May 2000	10,000,000	17 November 2000 – 11 May 2003	0.7392
CHUNG Cho Yee, Mico	17 May 2000	26,000,000	17 November 2000 – 11 May 2003	0.7392
WONG Kui Shing, Danny	20 April 2000	80,000,000	20 October 2000 – 19 April 2003	0.7392
	12 December 2000	22,000,000	12 June 2001 – 11 May 2003	0.2096
KAN Kwok Shu	19 May 2000	8,000,000	19 November 2000 – 11 May 2003	0.5568

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(ii) Associated corporation

As at 31 March 2001, the following Directors had interests in options to subscribe for shares ("Option Shares") in Hikari as follows:

Name	Date of Grant	Number of Option Shares	Exercisable Period	Exercise Price (JPY)
SUZUKI Masanori	19 April 1999	634	19 April 1999 – 19 April 2002	22,050
	27 December 1999	1,002	27 December 1999 – 20 December 2002	149,600
ABE Kazuhiko	19 April 1999	362	19 April 1999 – 19 April 2002	22,050
	27 December 1999	120	27 December 1999 – 20 December 2002	149,600
TSUJIGUCHI Takashi	19 April 1999	68	19 April 1999 – 19 April 2002	22,050
	27 December 1999	66	27 December 1999 – 20 December 2002	149,600

Furthermore, as at 31 March 2001, the following Director had interests in option to subscribe for shares ("Option Shares") in Hikari Tsushin Capital, Inc, a wholly-owned subsidiary of Hikari, as follows:

Name	Date of Grant	Number of Option Shares	Exercisable Period	Exercise Price (JPY)
SUZUKI Masanori	25 September 2000	320	25 September 2000 – 25 September 2004	100,000

Save as disclosed above, as at 31 March 2001, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company and its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, spouse or children under 18 years of age of any such Director any right to subscribe for securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the period under review.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the following parties having an interest of 10% or more of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of Shareholder	Notes	Number of Shares held*		Approximate Shareholding Percentage	
		Direct Interest	Deemed Interest **	Direct	Deemed **
Hikari Tsushin, Inc (“Hikari”)	1	2,380,400,000	933,600,000	51	20
Hikari Power Ltd (“Hikari Power”)	2	–	3,314,000,000	–	71
Mr SHIGETA Yasumitsu (“Mr Shigeta”)	2	–	3,314,000,000	–	71
Internet Configurations Limited (“ICL”)	1	933,600,000	–	20	–
CyberWorks Ventures Limited (“CWV”)	3	–	933,600,000	–	20
CyberVentures (Bermuda) Limited (“CVB”)	3	–	933,600,000	–	20
Century Power Group Limited (“CPG”)	3	–	933,600,000	–	20
Pacific Century CyberWorks Limited (“PCCW”)	1	–	3,314,000,000	–	71
Pacific Century Regional Developments Limited (“PCRD”)	4	–	3,314,000,000	–	71
Anglang Investments Limited (“Anglang”)	4	–	3,314,000,000	–	71
Pacific Century Group (Cayman Islands) Limited (“PCGCI”)	4	–	3,314,000,000	–	71
Pacific Century International Limited (“PCIL”)	4	–	3,314,000,000	–	71
Pacific Century Group Holdings Limited (“PCG”)	4	–	3,314,000,000	–	71
Mr Li Tzar Kai, Richard (“Mr Li”)	4	–	3,314,000,000	–	71

* This reflects the number of shares of the Company (the “Shares”) after sub-division of one Share into four Shares of HK\$0.025 each effected on 10 April 2000.

** Excluding direct interest

Notes:

- The Company, PCCW and Hikari entered into a conditional subscription agreement and PCCW and Hikari entered into an undertaking agreement both dated 28 December 1999 (the “Agreements”). The Agreements were completed on 10 March 2000. Pursuant to the Agreements, PCCW, through its indirect wholly-owned subsidiary, ICL, acquired 933,600,000 Shares and Hikari acquired 2,380,400,000 Shares and a HK\$93,420,000 convertible note (convertible into Shares at an adjusted conversion price of HK\$0.225 per Share). According to Section 9 of the SDI Ordinance, each of Hikari and PCCW is deemed to be interested in the relevant Shares interested by the other party.
- Hikari Power controls more than one third of the voting power of Hikari whilst Hikari Power is owned and controlled by Mr Shigeta. Accordingly, Hikari Power and Mr Shigeta are deemed to be interested in the relevant Shares held by Hikari.
- ICL holds 933,600,000 Shares and the entire issued capital of ICL is held by CWV. The entire issued share capital of CWV is held by CVB and the entire issued share capital of CVB is held by CPG. Therefore, CWV, CVB and CPG are all deemed to be interested in the relevant Shares held by ICL.
- PCRD holds more than one third of the issued share capital of PCCW. Each of Anglang and PCGCI holds more than one third of PCRD’s issued share capital. Anglang is wholly owned by PCGCI whilst the latter is wholly owned by PCIL. In turn, PCIL is wholly owned by PCG, the entire issued share capital of which is held by Mr Li. Therefore, PCRD, Anglang, PCGCI, PCIL, PCG and Mr Li are all deemed to be interested in the 3,314,000,000 Shares interested by PCCW.

Save as disclosed above, no other parties were recorded as having an interest of 10% or more of the issued share capital of the Company in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance.

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CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, for any part of the accounting period covered by this report.

In accordance with the Code of Best Practice, the Board of Directors established an audit committee in 1998. The audit committee, consisting of the two independent non-executive Directors of the Company, reviews and supervises the Group's financial reporting and internal control systems.

The financial information disclosed above has been complied with Appendix 16 of the Listing Rules and reviewed by the audit committee of the Company and the Auditors.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the twelve months ended 31 March 2001.

By Order of the Board
SUZUKI Masanori
Chairman

Hong Kong, 21 June 2001