

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") present their report and the audited financial statements of the Company and the Group for the sixteen-month period from 1 April 2000 to 31 July 2001 (the "Period").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the investment in Internet, Internet-related, mobile phone and mobile phone-related activities, the manufacture and the trading of batteries, silicone rubber products and electronic finished products as well as the trading of electronic parts and components.

CHANGE OF FINANCIAL YEAR-END DATE

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. The accounts presented herein cover a period of sixteen months from 1 April 2000 to 31 July 2001; however, the comparative figures for the profit and loss account, statement of recognised gains and losses, cash flow statement and related notes, which covered a period of twelve months from 1 April 1999 to 31 March 2000, are adopted.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) before tax by principal activity and geographical area of market for the sixteen months ended 31 July 2001 is as follows:

	Turnover HK\$'000	Contribution to profit/(loss) before tax HK\$'000
By activity:		
Investment in Internet, Internet-related, mobile phone and mobile phone-related activities	–	17,049
Others	–	1,334
	<hr/>	<hr/>
Total investment and other activities	–	18,383
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Manufacture and trading of batteries	299,361	(10,464)
Manufacture and trading of electronic finished products	340,052	(31,356)
Trading of electronic parts and components	88,665	5,300
Manufacture and trading of silicone rubber products	38,039	5,148
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Total manufacture and trading activities	766,117	(31,372)
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	766,117	(12,989)
	<hr/>	<hr/>
Provision for impairment of long-term investments transferred from investments revaluation reserve		(150,000)
Gain on disposal of investment		5,894
		<hr/>
		(157,095)
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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. During the Period, 43,604 warrants have been exercised to subscribe for the Company's shares and 932,704,800 warrants remained unexercised as at 31 July 2001.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the Period, together with the reasons therefor, are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group and the Company during the Period are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 July 2001, no reserve of the Company was available for distribution to shareholders of the Company. In addition, the Company's share premium account of HK\$757,763,000 as at 31 July 2001, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2001 %	2000 %
Purchases		
– the largest supplier	13.4	20.4
– five largest suppliers combined	27.8	40.0
Turnover		
– the largest customer	19.9	6.9
– five largest customers combined	37.5	23.3

MAJOR CUSTOMERS AND SUPPLIERS (continued)

None of the Directors or any of their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors during the Period and up to the date of this report are:

Mr SUZUKI Masanori (<i>Chairman</i>)	
Mr MASHITA Hirokazu (<i>Deputy Chairman</i>)	(appointed on 15 August 2001)
Mr NAKAMURA Tatsuya	(appointed on 15 August 2001)
Mr WONG Kui Shing, Danny	(appointed on 17 March 2001)
(<i>Chief Executive Officer</i>)	
Mr KAN Kwok Shu	(appointed on 17 March 2001)
Mr YUEN Tin Fan, Francis	
Mr CHUNG Cho Yee, Mico	
Mr CHAK Hubert *	(appointed as alternate to Mr Chung Cho Yee, Mico on 15 August 2001)
Mr LAU Wah Sum **	(appointed on 13 April 2000)
Mr KAN Fook Yee **	(appointed on 5 April 2000)
Mr ABE Kazuhiko	(resigned on 15 August 2001)
Mr TSUJIGUCHI Takashi	(resigned on 15 August 2001)
Mr AKITA Niro	(appointed on 27 September 2000 and resigned on 17 March 2001)
Miss MATSUSHITA Junko	(appointed on 27 September 2000 and resigned on 17 March 2001)
Mr SAITO Masahido	(retired on 26 September 2000)
Miss KATO Akiko	(retired on 26 September 2000)
Mr CHU King Tien	(resigned on 13 April 2000)
Mr CHAN Siu Chi, Lawrence	(resigned on 13 April 2000)
Mr CHU King Shing	(resigned on 4 April 2000)
Miss CHU Man Sze, Christina	(resigned on 4 April 2000)
Miss CHU Shuk Ching, Cecilia	(resigned on 4 April 2000)
Mr LEUNG Kam Wah, Edwin	(resigned on 4 April 2000)
Mr LEUNG Nai Chun	(resigned on 4 April 2000)
Mr FAN Chor Ho, Paul **	(resigned on 4 April 2000)
Mr LO Wai Keung, Peter **	(resigned on 4 April 2000)

* *Alternate Director*

** *Independent Non-executive Directors*

In accordance with the Company's Bye-law No. 86(2), Messrs Mashita Hirokazu, Nakamura Tatsuya, Wong Kui Shing, Danny and Kan Kwok Shu will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's Bye-law Nos. 87 and 169(2), Mr Chung Cho Yee, Mico will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this report are as follows:

Directors

SUZUKI Masanori, aged 43, was appointed Director of the Company in March 2000 and has been the Chairman of the Company since September 2000. Mr Suzuki was a director of Hikari Tsushin, Inc in charge of global strategy and investment planning. Prior to joining the Hikari Tsushin group in Japan, Mr Suzuki was a general manager of Jafco, a global venture capital firm and a director of Credit Suisse First Boston Securities. During his services with Nomura Securities Co, Ltd, Mr Suzuki was responsible for investment banking and corporate finance in the Asia-Pacific region. He has a strong background in finance and administration in strategic investment.

MASHITA Hirokazu, aged 32, was appointed Director and Deputy Chairman of the Company in August 2001. He is also a director and the chief financial officer of Hikari Tsushin, Inc and is responsible for its overall management, including corporate planning, investor relations, and accounting and financial functions. Prior to taking up these posts, Mr Mashita was the chief investment officer of Hikari Tsushin Capital, Inc. Before joining the Hikari Tsushin group in Japan, he was the vice president of Nomura Securities International, Inc, New York, USA and was responsible for financial engineering and investment banking. Mr Mashita has a strong background in finance and investment. He was awarded an MBA in finance by Duke University, USA.

NAKAMURA Tatsuya, aged 45, was appointed Director of the Company in August 2001. He is also a director and the vice president in charge of Asset Administration Department of Hikari Tsushin, Inc and is responsible for the overall investment management of the group. Prior to joining Hikari Tsushin, Inc, Mr Nakamura was the vice president of Credit Suisse Trust & Banking, Co Ltd. He has held senior positions in Nomura Securities Co, Ltd and was responsible for investment banking in the Asia-Pacific region during his tenure as an executive director of Nomura International (Hong Kong) Limited. Mr Nakamura has a strong background in finance and investment. He graduated from Waseda University, Japan with a law degree.

WONG Kui Shing, Danny, aged 42, was appointed Director of the Company in March 2001. He joined the Group as Deputy Chief Executive Officer in April 2000 and was promoted to Chief Executive Officer in September 2000. He is responsible for the Group's overall investment and its operations. Mr Wong started his career in the securities industry in the then leading securities firm, Baring Securities Limited, in 1986. Since then, he has held key positions in various international financial institutions. Prior to joining the Group, he started his own consultancy business in 1998, when technology began to gain importance in the region. Consultancy services were provided to parties involved in the technology sector, in particular on Internet and telecommunication related projects. Mr Wong has extensive exposure in the financial and investment fields for over 15 years and is well experienced in international market, especially in the corporate finance and technology areas. He obtained a Bachelor of Arts degree from the University of Hong Kong.

KAN Kwok Shu, aged 43, was appointed Director and Deputy Chief Executive Officer of the Company in March 2001. He joined the Group as Senior Vice President in May 2000. Mr Kan is also a member of the Group's Investment Committee responsible for investment projects of the Group. Prior to joining the Group, Mr Kan held various senior positions in leading fund management companies such as Jardine Fleming Investment Management Limited, Euro Pacific Advisors and Thornton Management (Asia) Limited. Mr Kan has over 15 years of investment experience in the Asia-Pacific region, in particular the Greater China Market. Mr Kan graduated from the University of Calgary with a major in Finance.

YUEN Tin Fan, Francis, aged 49, was appointed Director of the Company in March 2000. Mr Yuen is a deputy chairman of Pacific Century CyberWorks Limited, deputy chairman of the Pacific Century Group, chairman of Pacific Century Insurance Holdings Limited and deputy chairman of Pacific Century Regional Developments Limited. He joined the Pacific Century Group in 1996 after an extensive career in investment banking and financial regulatory affairs that spanned Asia. He received a Bachelor of Arts degree in Economics from the University of Chicago and is presently a member of the Board of Trustees of the University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

CHUNG Cho Yee, Mico, aged 41, was appointed Director of the Company in March 2000. Mr Chung is an executive director of Pacific Century CyberWorks Limited and is responsible for the Pacific Century Group's mergers and acquisitions activities. He is a qualified solicitor by profession. Mr Chung graduated from the University College, University of London, England with a law degree in 1983. He was qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988. He became a director and the general manager of Bond Corporation International Ltd in 1990 and left to join China Strategic Holdings Limited in January 1992. Mr Chung joined the Pacific Century Group in March 1999. He is the son-in-law of Mr Kan Fook Yee.

CHAK Hubert, aged 40, was appointed Alternate Director to Mr Chung Cho Yee, Mico, Director of the Company, in August 2001. Mr Chak is a director of Mergers and Acquisitions at Pacific Century CyberWorks Limited responsible for its corporate mergers and acquisitions activities. Prior to joining Pacific Century CyberWorks Limited, Mr Chak was a director of corporate finance, Asia at ING Barings Asia Limited in Hong Kong where he was responsible for origination and execution of investment banking transactions. Mr Chak has extensive experience in both mergers and acquisitions and capital markets transactions in the Asia-Pacific region having worked for a number of international investment banks for nearly ten years. Prior to starting his career in investment banking, Mr Chak worked in KPMG Peat Marwick in Hong Kong for four years. Mr Chak holds a Master of Business Administration degree and a Bachelor of Science degree in Mechanical Engineering from the University of Wales Institute of Science and Technology in the United Kingdom.

LAU Wah Sum, aged 73, was appointed Independent Non-executive Director of the Company in April 2000. Mr Lau is the president of W S Lau & Associates Ltd and chairman of Equity Holdings Limited. He is a registered Investment Adviser and Fellow of the Chartered Institute of Management Accountants. He serves the community as Chairman of Urban Renewal Authority and Court Member of the University of Science and Technology of Hong Kong. He also sits on the board of several listed companies in Hong Kong.

KAN Fook Yee, aged 65, was appointed Independent Non-executive Director of the Company in April 2000. He is a fellow member of the Hong Kong Institute of Surveyors, The Royal Institution of Chartered Surveyors and The Chartered Institute of Arbitrators. Mr Kan has over 36 years' experience in the field of property surveying. He is the father-in-law of Mr Chung Cho Yee, Mico.

Senior Management

LEE Kin Chung, Simon, aged 42, was appointed Senior Vice President of the Group in April 2000. He is also a member of the Group's Investment Committee responsible for investment projects of the Group. Prior to joining the Group, Mr Lee was the managing director and chief investment officer of SIIC Asset Management Company Limited, the investment arm of Shanghai Industrial Holdings Limited. He has over 14 years' experience in fund management industry and has worked for various international firms such as HSBC, Yamaichi and SHK Asset Management. Mr Lee graduated at the University of Alberta with a major in Economics.

WONG Chee Wai, Alan, aged 47, is the Chief Financial Officer of the Group. He joined the Group in March 2001. He is responsible for overseeing the Group's finance, accounting, company secretarial, administration and information technology matters. He has over 22 years of experience in finance, treasury, accounting and administration with various companies in Hong Kong and North America. He holds a Bachelor degree in Economics, an Honours Bachelor degree in Commerce and a Master of Business Administration degree in Accounting and Finance from the University of Windsor, Ontario, Canada.

CHU King Tien, aged 47, joined the Group in 1973. He is responsible for the overall management and formulation of the corporate policies and strategies of the Group's Manufacturing Division and also its business development. He has more than 20 years' experience in the battery business.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements respectively.

DIRECTORS' SERVICE CONTRACTS

The Group has entered into the following service contracts with its Directors:

- (a) The Company has entered into a service contract with each of Messrs Kan Fook Yee and Lau Wah Sum, Independent Non-executive Directors, for a fixed term of two years commencing 5 April 2000 and 13 April 2000 respectively. After the expiry of the initial term of two years, these service contracts will be deemed to be renewed or extended unless terminated by either party giving not less than three months' prior written notice to the other.
- (b) A subsidiary of the Group has also entered into a service contract with each of Messrs Wong Kui Shing, Danny and Kan Kwok Shu, Directors of the Company, for a fixed term of two years commencing 1 April 2000 and 1 May 2000 respectively. After the expiry of the initial term of two years, these service contracts will be deemed to be renewed or extended unless terminated by either party giving not less than three months' prior written notice to the other.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the Period, the Group paid a sum of approximately HK\$389,000 to Equity Financial Press Limited and a sum of approximately HK\$55,000 to Central Language Services, Limited in respect of their provision of printing and translation services to the Group. Mr Lau Wah Sum is the chairman of Equity Financial Press Limited and a director of Central Language Services, Limited.

Save as disclosed above, no Director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party during the period under review.

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

I. Securities

(i) The Company

As at 31 July 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES (continued)

I. Securities (continued)

(ii) *Associated corporation*

As at 31 July 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	–	35.1160	2,135.1160
Abe Kazuhiko**	–	–	121.2750	121.2750
Tsujiguchi Takashi **	–	–	53.5620	53.5620

II. Share Options

(i) *The Company*

As at 31 July 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 for each grant of 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

No options had been exercised by any of the above Directors during the Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES (continued)

II. Share Options (continued)

(ii) Associated corporation

As at 31 July 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
Tsujiuchi 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 July 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 July 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.

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

** Messrs Abe and Tsujiuchi have resigned as Directors effective 15 August 2001.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, their respective 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporates.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 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 ^Δ		Approximate Shareholding Percentage	
		Direct Interest	Deemed Interest ^{ΔΔ}	Direct	Deemed ^{ΔΔ}
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

^Δ 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.

^{ΔΔ} 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.

TRANSACTIONS WITH HOLDING COMPANY

During the Period, the Group had the following transactions with Hikari:

- (a) In June 2000, the Company entered into an agreement with Hikari. Pursuant to the agreement, the Company acquired certain shares in Internet Auction Co, Ltd from Hikari at a consideration of the equivalent of approximately HK\$7.9 million. Internet Auction Co, Ltd is a company incorporated in the Republic of Korea and engaged in the establishment and operation of Internet auction websites. The acquisition was approved by the Directors, including the Independent Non-executive Directors, on 9 June 2000. Details of the transaction were published in the announcement dated 9 June 2000.
- (b) In January and February 2001, the Company entered into an agreement and a supplemental agreement with Hikari respectively. 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 the equivalent of approximately HK\$185 million. Details of the transaction were stated in the Company's circular to the holders of its securities dated 10 February 2001.

CONNECTED TRANSACTIONS

In addition to the transactions with the holding company mentioned above, during the Period, the Group had transactions with the following companies and individuals, which are constituted as "connected transactions" as defined under the Listing Rules:

		Group For the sixteen months ended 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Jiangmen Industrial Products Import and Export Corporation ("JIPIE") and Jiangmen J.J.J. Battery Company Limited ("JJJB")			
Purchases of raw materials	1	14,434	15,561
JJJB			
Rental expenses	2	4,423	3,210
Goldtium (Hong Kong) Company Limited ("Goldtium HK") and Goldtium (Jiang Men) Battery Company Limited ("Goldtium JM")			
Sales of raw materials	3	3,661	1,148
Purchases of finished goods	3	111,158	54,482
Rental	4	17,600	13,200
JIPIE	5		
Sales of raw materials		2,335	771
Sales of finished goods		4,594	4,182
Purchases of raw materials		2,392	868
Purchases of finished goods		4,720	3,739

JIPIE and JJJB are the shareholders of Goldtium JM. Goldtium HK and Goldtium JM are non-wholly-owned subsidiaries of the Company.

CONNECTED TRANSACTIONS (continued)*Notes:*

1. The purchase transactions with JIPIE and JJJB were defined as "Ongoing Connected Transactions" in the circular to the holders of securities of the Company dated 10 February 1998 (the "Circular I") and were approved by the shareholders at the special general meeting of the Company held on 5 March 1998 (the "SGM"). The Stock Exchange has granted waivers from strict compliance with the requirements of connected transactions as set out in the Listing Rules.

Such Ongoing Connected Transactions have been reviewed by the Directors (including the Independent Non-executive Directors) and the Independent Non-executive Directors have confirmed that they consider that the above transactions were concluded:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms no less favourable than terms available from independent third parties; and
- (c) on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The aggregate amount of such purchases by the Group amounted to less than 10% of the audited consolidated purchases of the Group for the Period and did not exceed the cap of the waiver granted and extended by the Stock Exchange on 25 February 1998 and 31 October 2000 respectively.

2. The rental expenses related to the factory premises leased from JJJB. The rental charges were made pursuant to the terms of the tenancy agreement entered into on 16 October 1998. The aggregate amount of the rental charges for the Period did not exceed the cap of HK\$10,000,000 as stipulated in a waiver granted by the Stock Exchange on 5 November 1998.
3. The sale and purchase transactions with Goldtium HK and Goldtium JM were defined as "Future Connected Transactions" in Circular I. The amount of sales of raw materials and purchases of finished goods did not exceed 12% of the audited consolidated purchases and 25% of the audited consolidated turnover of the Group for the Period respectively, being the cap of waivers granted by the Stock Exchange on 25 February 1998 and 13 August 1999 respectively, and extended by the Stock Exchange on 31 October 2000.
4. Pursuant to a leasing agreement dated 12 March 1998 entered into between Goldtium HK and Goldtium JM, Goldtium JM paid a monthly equipment rental of HK\$1,100,000 to Goldtium HK in respect of the leasing of the alkaline manganese battery production line. The lease agreement will expire on 31 March 2002.
5. The sale and purchase transactions with JIPIE were defined as "Jiangmen IE Transactions" in the circular to the holders of securities of the Company dated 25 June 1999 (the "Circular II"). The Stock Exchange has granted waivers from strict compliance with the requirements of connected transactions as set out in the Listing Rules up to 31 March 2002.

The aggregate amount of Jiangmen IE Transactions was less than 22.34% of the audited consolidated turnover of the Group for the Period, being the cap of the waiver granted by the Stock Exchange on 13 August 1999 and extended by the Stock Exchange on 31 October 2000 respectively.

CONNECTED TRANSACTIONS (continued)

In addition to the above transactions, the Group also granted loans to Goldtium HK and Goldtium JM and corporate guarantees to banks in favour of Goldtium HK and Goldtium JM.

		Group	
	Notes	For the sixteen months ended 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Goldtium HK			
Corporate guarantee	1	103,500	90,000
Shareholders' loans	2	41,860	64,800
Goldtium JM			
Loans	3	53,308	31,998
Shareholders' loans	4	8,079	7,310
Goldtium HK and Goldtium JM			
Loans	5	<u>16,571</u>	<u>14,694</u>

Notes:

- 1.* Apart from a corporate guarantee which was duly approved by the shareholders of the Company at the SGM in respect of a HK\$40,000,000 (2000: HK\$40,000,000) loan from the Bank of China (Hong Kong) Limited ("BOC") (formerly known as "Bank of China, Hong Kong Branch") to Goldtium HK and which was subsequently reduced to HK\$20,000,000, the Company granted corporate guarantees amounting to HK\$83,500,000 (2000: HK\$50,000,000) in favour of Goldtium HK for the Period.

The amount of the loans and guarantees granted by the Group in favour of Goldtium HK mentioned above (excluding the guarantee on the HK\$20,000,000 loan from BOC) in aggregate did not exceed the following waiver caps granted by the Stock Exchange on 13 August 1999:

- (a) HK\$126,000,000, which includes those guarantees granted by the Group for pool banking facilities extended partly to Goldtium HK and partly to wholly-owned subsidiaries of the Company; and
- (b) HK\$79,500,000, which excludes that part of loans available to other wholly-owned subsidiaries of the Company under the pool banking facilities mentioned in (a) above.
2. Pursuant to a shareholders' loan agreement dated 1 August 1998, Techway (China) Limited ("Techway"), a wholly-owned subsidiary of the Company, Mr Shi Zhaoping and Mr Liu Dongyu (the "PRC Individuals"), have committed to granting interest-free loans to Goldtium HK in proportion to their respective equity interests in that company for financing its operation. 70% of the shareholders' loans were granted by the Group and 15% of which were granted by each of the PRC Individuals.
- 3.* The amount of loans and guarantees granted by the Group in favour of Goldtium JM in aggregate did not exceed the cap of 15% of the unaudited consolidated net tangible assets of the Group as at 30 September 1997 (which was HK\$382,738,551), as stipulated in the waiver granted by the Stock Exchange on 25 February 1998.
4. Pursuant to a shareholders' loan agreement dated 17 September 1998, Techway, JJJB and JIPIE, have committed to granting interest-free loans to Goldtium JM in proportion to their respective equity interests in that company for financing its operation. 70% of the shareholders' loans were granted by the Group and 15% of which were granted by each of JJJB and JIPIE.

CONNECTED TRANSACTIONS (continued)

Notes: (continued)

5. The loan transactions between Goldtium HK and Goldtium JM were defined as "Goldtium Transactions" in Circular II mentioned above. This amount represented loans advanced from Goldtium HK to Goldtium JM. The total amount of the loans and advances in aggregate did not exceed the cap of HK\$20,000,000, being the cap of waiver granted by the Stock Exchange on 13 August 1999.

* For the loans and guarantees granted by the Group in favour of Goldtium HK and Goldtium JM in notes 1 and 3 above, the Group has obtained indemnities from the minority shareholders of Goldtium HK and Goldtium JM in favour of the Group in respect of their respective equity interests in the companies.

The Directors, including the Independent Non-executive Directors, have reviewed the above connected transactions and confirmed that these connected transactions, being conducted in the ordinary course of business and carried out on normal commercial terms or in accordance with the terms of the respective agreements governing the transactions, are considered to be fair and reasonable so far as the interests of the shareholders of the Company are concerned.

POST BALANCE SHEET EVENTS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2001, the Group employed approximately 8,090 full-time employees and out of which 7,905 were in the PRC and 185 were in Hong Kong. Remuneration package is reviewed annually with reference to the market trend, prevailing legislation and individual performance. Discretionary bonuses are granted to employees depending on the Group's and individual performance. In the PRC, the Group provides its employees with staff welfare and/or bonus in accordance with the prevailing labour law and based on individual performance. Besides, certain employees of the Group are entitled to medical insurance. Share options pursuant to the Company's existing share option scheme have been granted to certain Directors and employees of the Group during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2001, the Group had cash and bank balances in aggregate of approximately HK\$400 million. The liquidity position of the Group was as follows:

	31 July 2001	31 March 2000
Liquid ratio	1.56	5.29
Ratio of total liabilities to shareholders' equity	0.46	0.30

During the Period, the Group used approximately HK\$462 million, which was part of the proceeds from the subscription of new shares and the issuance of the convertible note on 10 March 2000, to acquire investments in Internet and mobile phone-related sectors. Therefore, the Group's liquid ratio at 31 July 2001 reduced to a relatively lower level. The Group further utilised approximately HK\$42 million to acquire an investment subsequent to 31 July 2001. The Group has continuously placed most of the remaining funds in US dollar time deposits with sound financial institutions and deposits of approximately HK\$78 million are being pledged with banks to maintain general banking facilities. However, due to the substantial cut in bank deposit rates in the recent six months, the interest income of the Group reduced accordingly. The Group will continue to put its financial resources to good use in order to develop its existing businesses.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

On the other hand, the Group had outstanding bank borrowings of approximately HK\$72 million as at 31 July 2001, out of which approximately HK\$52 million was the outstanding trust receipt loans, which were higher than the balances as at 31 March 2000. Such increase was in proportion to the increase in the turnover for the Period. Most of these outstanding trust receipt loans were denominated in Hong Kong dollars and US dollars so no hedging is required to reduce the currency fluctuation risk. The interest rate of the Group's trust receipt loans were mainly based on the prevailing prime rate. The Group has utilised and maintained its general banking facilities at a reasonable level. The Company provides corporate guarantees of approximately HK\$124 million for the general banking facilities granted to certain subsidiaries of the Company.

Beside the trust receipt loans, the Group's Manufacturing Business also utilised several term loans, totalling approximately HK\$20 million as at 31 July 2001, mainly to finance its acquisition of production facilities in the PRC. Certain plant and machineries were pledged to secure a term loan granted by a bank. Most of these term loans, including a term loan of RMB10 million, will be repayable within one year. In addition, the Group had a convertible note of approximately HK\$93 million outstanding as at 31 July 2001. This convertible note will be payable in March 2002 if the note holder, Hikari, does not convert the note into ordinary shares of the Company at an adjusted conversion price of HK\$0.225 per share. The financial position of the Group will remain sound even if the Group repays the outstanding sum of the note in March 2002 in full. It is believed that the Group will have adequate cash resources to meet its capital requirements and any commitments for future expansion should the opportunities arise.

CAPITAL STRUCTURE

The Group's capital structure did not have any significant change for the Period. Only 43,604 shares were issued upon the exercise of warrants of the Company for the sixteen-month period ended 31 July 2001.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of the Directors in competing businesses as at 31 July 2001 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of Company	Nature of Competing Business	Nature of Interest
Suzuki Masanori	STAREASTnet.com Corporation*	Development of an entertainment website for the global Chinese	As a director
Wong Kui Shing, Danny	Chinaproducts.com (HK) Ltd	Providing online database of Chinese exporters and manufacturers and offering e-Commerce related web solution services	As a director
	One Studio Ltd	Internet solutions services provider	As a director
	OSINTERNET LTD	Telecommunication related business	As a director

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Name of Director	Name of Company	Nature of Competing Business	Nature of Interest
Yuen Tin Fan, Francis	Pacific Century CyberWorks Limited* and its subsidiaries	Integrated communications and Internet service provider	As a director
	SilkRoute Holdings Pte Ltd	Internet Incubator	As a director
	SilkRoute Ventures Pte Ltd	Providing IT consultancy services and online information services	As a director
Chung Cho Yee, Mico	Pacific Century CyberWorks Limited* and its subsidiaries	Integrated communications and Internet service provider	As a director
	iLink Holdings Limited* and its subsidiaries	Internet application solution provider	As a director
	Spike Networks Limited**	Development of end-to-end strategic Internet services	As a director
	E1 Media Technology Limited	Information technology business	As a director
	Magically, Inc	Provision of web-based messaging	As a director
	Outblaze Limited	Instant portal	As a director
	SilkRoute Holdings Pte Ltd	Internet incubator	As an alternate director
	SilkRoute Ventures Pte Ltd	Providing IT consultancy services and online information services	As an alternate director

* listed on the Hong Kong Stock Exchange

** listed on the Australian Stock Exchange

Other than as disclosed above, none of the Directors is interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

