

The directors have pleasure in presenting their first annual report and the audited financial statements of the Company for the period from 9 April 2001 (date of incorporation) to 31 March 2002 and of the Group for the year ended 31 March 2002.

CORPORATE REORGANISATION

The Company was incorporated as an exempted company with limited liability on 9 April 2001 in the Cayman Islands under the Companies Laws of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 12 September 2001. Details of the Group Reorganisation are set out in the prospectus issued by the Company on 30 October 2001.

The shares of the Company were listed on the Stock Exchange since 9 November 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 24.

During the year, certain subsidiaries of the Company paid dividends with an aggregate amount of HK\$30,000,000 to their then shareholders, prior to the Group Reorganisation.

The directors recommend the payment of a dividend of HK2 cents per share to the shareholders of the Company whose names appear on the register of members on 13 August 2002.

INVESTMENT PROPERTIES

All of the investment properties of the Group were revalued at 31 March 2002. The revaluation increase arising on revaluation, which amounted to HK\$1,470,000, has been credited to the investment property revaluation reserve.

Details of these and other movements during the year in the investment properties of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

All of the leasehold land and buildings were revalued at 31 March 2002. The revaluation increase arising on revaluation, which amounted to HK\$27,856,000, has been credited to the leasehold property revaluation reserve.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 25 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Chan Chung Yee, Hubert (<i>Chairman</i>)	(appointed on 20 April 2001)
Chan Chung Yin, Roy	(appointed on 20 April 2001)
Chan Man Min	(appointed on 20 April 2001)
Chan Ming Him, Denny	(appointed on 20 April 2001)
Kwok Cheuk Tim, Rockie	(appointed on 20 April 2001)
Tsui Hon Wing	(appointed on 20 April 2001)
Wu Kwok Lam	(appointed on 20 April 2001)
Yeh Yui Fong	(appointed on 20 April 2001)

Independent non-executive directors:

Chiu Ngar Wing	(appointed on 7 August 2001)
Chu Chor Lup	(appointed on 7 August 2001)
Fung Lewis Hung	(appointed on 7 August 2001)

In accordance with Article 108 of the Company's Articles of Association, Messrs. Wu Kwok Lam, Chan Ming Him, Denny and Mr. Tsui Hon Wing retire by rotation and, being eligible, offer themselves for re-election.

None of the directors 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.

The term of office for each independent non-executive director is one year.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 37 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were set out below:

Name of director	Personal interest	Family interest	Corporate interest
Chan Chung Yee, Hubert	–	205,252,200 (i)	–
Chan Chung Yin, Roy	–	68,417,400 (ii)	–
Chan Man Min	–	–	24,709,650 (iii)
Yeh Yui Fong	–	–	2,681,550 (iv)
Tsui Hon Wing	–	–	1,939,200 (v)

Notes:

- (i) 205,252,200 shares were held by Matrix World Group Limited, a company wholly-owned by Newcourt Trustees Limited as the trustee of the Mr. Chan Chung Yee, Hubert's family trust.
- (ii) 68,417,400 shares were held by Star Global International Limited, a company wholly-owned by Newcourt Trustees Limited as the trustee of the Mr. Chan Chung Yin, Roy's family trust.
- (iii) 24,709,650 shares were held by Ocean Hope Group Limited which was wholly-owned by Mr. Chan Man Min.
- (iv) 2,681,550 shares were held by Ocean Castle Developments Limited which was wholly-owned by Mr. Yeh Yui Fong.
- (v) 1,939,200 shares were held by Total Portfolio Limited which was wholly-owned by Mr. Tsui Hon Wing.

Save as disclosed above, at 31 March 2002, none of the directors or their associates had any interests in the securities of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements 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. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 23 October 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the Company:

- (i) any eligible employee of the Company, any of its subsidiaries or any entity ("Invested Entity");
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

SHARE OPTIONS (CONTINUED)

The eligibility of any of the above class of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The share options were granted on 23 November 2001 at an exercise price of HK\$0.38 per share, exercisable for the period from 23 May 2002 to 30 June 2003 (both days inclusive).

At 31 March 2002, the number of shares in respect of which options had been granted under the scheme was 22,400,000, representing 5% of shares of the Company in issue at that date.

SHARE OPTIONS (CONTINUED)

The fair value of the options granted in the current year measured as at the date of grant on 7 November 2001 totalled approximately HK\$2,307,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

1. an expected volatility of 72%;
2. no annual dividend; and
3. the estimated expected life of the options granted during 2001 is 12 months. The corresponding one-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 2.31%.

The closing price of the Company's shares immediately before the date of grant was HK\$0.37.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the consolidated income statement in respect of the value of option granted in the year.

SHARE OPTIONS (CONTINUED)

The following table discloses movements in the Company's share options during the year:

	Number of shares under options granted		
	Outstanding at 1 April 2001	Granted during the year	Outstanding at 31 March 2002
1. Directors			
Chan Chung Yee, Hubert	–	4,300,000	4,300,000
Chan Chung Yin, Roy	–	1,800,000	1,800,000
Chan Man Min	–	1,000,000	1,000,000
Chan Ming Him, Denny	–	1,000,000	1,000,000
Kwok Cheuk Tim, Rockie	–	1,000,000	1,000,000
Tsui Hon Wing	–	1,000,000	1,000,000
Wu Kwok Lam	–	1,000,000	1,000,000
Yeh Yui Fong	–	1,000,000	1,000,000
	–	12,100,000	12,100,000
2. Employees	–	3,800,000	3,800,000
3. Customers	–	6,500,000	6,500,000
Total	–	22,400,000	22,400,000

CONNECTED TRANSACTIONS

During the year, the Group entered the following connected transactions:

Name	Nature of transaction	Amount HK\$'000
Hong Kong Communications Computer Company Limited	Computer software maintenance fee and purchase of computer hardwares	1,665
Hong Kong Communications Investments Limited	Disposal of an investment property	13,300
Hong Kong Communications Holdings Limited	Disposal of leasehold property	1,430

CONNECTED TRANSACTIONS (CONTINUED)

Mr. Chan Chung Yee, Hubert, Mr. Chan Chung Yin, Roy and Mr. Chan Man Min have beneficial interest in Hong Kong Communications Computer Company Limited.

Mr. Chan Chung Yee, Hubert and Mr. Chan Chung Yin, Roy have beneficial interests in Hong Kong Communications Investments Limited and Hong Kong Communications Holdings Limited, and the disposal of properties took place prior to the listing of the Company on the Stock Exchange.

The independent non-executive directors confirm that the transactions have been entered into by the Group in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions and in normal commercial terms.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance recorded the following parties as having an interest representing 10% or more in the issued share capital of the Company as at 31 March 2002:

Name	Number of shares held	Percentage held
Matrix World Group Limited	205,252,200	47.40%
Star Global International Limited	68,417,400	15.80%
Newcourt Trustees Limited (note)	273,669,600	63.20%

Note: Newcourt Trustees Limited owns 100% of Matrix World Group Limited and Star Global International Limited and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Matrix World Group Limited and Star Global International Limited.

Save as disclosed above, no persons has registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2002, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 34% of the Group's total turnover and the sales attributable to the Group's largest customer was approximately 9% of the total sales. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 91% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 87% of the total purchases.

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

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

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

DONATION

During the year, the Group made a charitable donation amounting to HK\$154,000.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 12 September 2001 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Company's audit committee comprises three independent non-executive directors namely, Messrs. Chiu Ngar Wing, Fung Lewis Hung and Dr. Chu Chor Lup.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 9 April 2001.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan Chung Yee Hubert

CHAIRMAN

19 July 2002