

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 30 June 2002.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 19 to the financial statements.

Results

The results of the Group for the year ended 30 June 2002 are set out in the consolidated profit and loss account on page 35.

An analysis of the Group's performance for the year by business segment is set out in note 3 to the financial statements.

Dividends

The Directors recommended the payment of a final dividend of HK\$0.07 per share (2001: Nil), with a scrip dividend alternative, totalling HK\$40,777,000 to the shareholders registered in the Company's register of members as at the close of business on 17 October 2002. As no interim dividend was declared by the Company during the year (2001: Nil), the total dividend per share for the financial year is HK\$0.07 (2001: Nil).

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 33.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

Distributable reserves

Distributable reserves of the Company at 30 June 2002 amounted to HK\$939,321,000 (30 June 2001: HK\$975,525,000).

Donations

During the year, charitable or other donations made by the Group amounted to HK\$18,000 (2001: Nil).

Fixed assets

Details of the movements in fixed assets are shown in note 14 to the financial statements.

Share capital

Details of the movements in share capital of the Company are shown in note 24 to the financial statements.

Directors and interests in contracts

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

- * Mr. **Kwok** Ping Luen, Raymond
Chairman

- Mr. **Li**, Douglas
Chief Executive Officer
(Appointed on 17 July 2001)

- Mr. **Chan** Kai Lung, Patrick
Executive Director

- * Mr. Graham Goodfellow **Moore**
(Appointed on 30 June 2002)

- * Mr. Peter Francis **Cross**
(Appointed on 15 April 2002)

- * Mr. Mario **Michael**
(Appointed on 24 September 2002)

- * Mr. **Lai** Ho Kai, Ernest

- * Mr. **Wong** Yick Kam, Michael
(Appointed on 11 October 2001)

- * Mr. **So** Sing Tak, Andrew
(Appointed on 15 April 2002)

- ** The Hon. **Li** Ka Cheung, Eric, JP

- ** The Hon. **Ng** Leung Sing

- ** Dr. Sachio **Semmoto**
(Appointed on 24 September 2002)

Mr. Ian Charles **Stone**

(Resigned on 17 July 2001)

* Mr. **Tsim** Tak Po, Paul

(Resigned on 11 October 2001)

* Mr. Bror Bengt Vilhelm **Nordstrom**

(Resigned on 14 December 2001)

* Mr. Andrew James **Green**

(Resigned on 15 April 2002)

* Mr. Jean F.H.P. **Mandeville**

(Resigned on 30 June 2002)

* Mr. **Tang** Yet San, Rick

(Resigned on 24 September 2002)

** Dr. **Lo** Wing Yan, William, JP

(Resigned on 30 June 2002)

* *Non-Executive Director*

** *Independent Non-Executive Director*

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Kwok Ping Luen, Raymond, Chan Kai Lung, Patrick, Li Ka Cheung, Eric and Ng Leung Sing retire by rotation and Messrs. Peter Francis Cross, So Sing Tak, Andrew, Graham Goodfellow Moore, Mario Michael and Dr. Sachio Semmoto retire in accordance with Bye-law No. 101 at the forthcoming annual general meeting. All retiring Directors, being eligible, offer themselves for re-election. All remaining Directors shall continue in office.

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The term of office of the Independent Non-Executive Directors shall be governed by the provision of Bye-laws No. 110 and No. 111 of the Company.

Apart from the connected transactions referred to in this report, no other contracts of significance in relation to the Group's business to which the Company or 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.

Biographical details of directors and senior management

Brief biographical details of the Directors and senior management are set out on pages 26 to 32.

Directors' interests

At 30 June 2002, the interests of the Directors and Chief Executive in the shares and options to subscribe for shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure Of Interests) Ordinance (the "SDI Ordinance") or 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 were as follows:

1. Ordinary shares

Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total
Kwok Ping Luen, Raymond	692,846	Nil	Nil	Nil	692,846

2. Rights to subscribe for ordinary shares under Share Option Scheme

Name of Directors	Note	Outstanding at 1 July 2001	Granted during the year	Exercised during the year	Outstanding at 30 June 2002
Li, Douglas	1	Nil	5,000,000	Nil	5,000,000
Chan Kai Lung, Patrick	2	Nil	200,000	Nil	200,000

Notes:

1. The options are exercisable at HK\$9.29 per share during the period from 17 July 2002 to 16 July 2011. 20 per cent. of the options are exercisable on each of the first, second, third, fourth and fifth anniversaries of the date of grant of the option.
2. The options are exercisable at HK\$9.20 per share during the period from 2 May 2003 to 1 May 2012. One-third of the options are exercisable on each of the first, second and third anniversaries of the date of grant of the option.

Save as disclosed above, at 30 June 2002, none of the Directors and Chief Executive (including their spouses and children under 18 years of age) and their respective associates had any other personal, family, corporate or other interests in the shares of the Company, its subsidiaries or any of its associated corporations as defined in the SDI Ordinance nor any right to subscribe for the shares of the Company, its subsidiaries or any of its associated corporations.

Directors' interests in competing business

Mr. Kwok Ping Luen, Raymond, the Company's Chairman, is also the Chairman and Chief Executive Officer of SUNeVision Holdings Limited ("SUNeVision"), an associated corporation of the Company within the meaning of the SDI Ordinance. The business of SUNeVision consists of Internet services, which may be in competition with one part of the businesses of the Group.

Save as disclosed above, none of the Directors of the Company have any interest in any business which may compete with the business of the Group.

Share option scheme

Pursuant to the Share Option Scheme adopted by the Company and as amended by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), employees including Directors in full time employment of the Group may be granted options to subscribe for the shares of the Company. At 30 June 2002, the following options granted to the employees and the Directors were outstanding:

Date of grant	Exercise price HK\$	Exercise period	Outstanding at 1 July 2001	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2002
3 December 1996	16.10	1 January 1997 to 31 December 2003	99,500	—	—	46,500	53,000
14 April 1998	20.60	14 April 1999 to 13 April 2005	1,136,500	—	—	324,000	812,500
14 September 1999	23.90	14 September 2000 to 13 September 2007	383,000	—	—	383,000	—
17 November 1999	27.70	17 November 2000 to 16 November 2007	3,028,000	—	—	1,418,500	1,609,500
22 March 2000	25.50	22 March 2001 to 21 March 2007	100,000	—	—	—	100,000
4 September 2000	15.20	4 September 2001 to 3 September 2007	200,000	—	—	200,000	—
*13 July 2001	9.20	13 July 2002 to 12 July 2008	—	—	—	—	100,000
*17 July 2001	9.29	17 July 2002 to 16 July 2011	—	—	—	—	5,000,000

Date of grant	Exercise price HK\$	Exercise period	Outstanding at 1 July 2001	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2002
*19 March 2002	8.97	19 March 2003 to 18 March 2009	—	—	—	—	100,000
*2 May 2002	9.20	2 May 2003 to 1 May 2012	—	—	—	—	200,000

* The closing prices of the shares of the Company as quoted by the Stock Exchange on 12 July 2001, 16 July 2001, 18 March 2002 and 30 April 2002 were HK\$9.30, HK\$9.45, HK\$8.95 and HK\$8.90 respectively.

Valuation of the share options granted during the year

In assessing the value of the share options granted during the year ended 30 June 2002, the Black-Scholes option pricing model adjusted for dividends (the “Black-Scholes Model”) has been used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include: expected life of the options, risk-free interest rate, expected volatility and expected dividend yield of the Company, if any.

In assessing the value of the share options granted during the year to both Directors and employees, the variables of the Black-Scholes Model and its values are listed as follows:

Grantee	Grant date	Expected life	Risk-free rate	Expected volatility	Expected dividend yield
Directors:					
Li, Douglas	17 July 2001	7 years	5.87%	49.73%	1.95%
Chan Kai Lung, Patrick	02 May 2002	7 years	5.39%	43.09%	1.95%
Employees	13 July 2001	5 years	5.56%	49.77%	1.95%
	19 March 2002	5 years	5.48%	46.12%	1.95%

- The expected life is measured from the date of grant (the “Measurement Date”).
- The risk-free rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- The expected volatility used in the calculation represents the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.
- The expected dividend yield represents the average dividend yield for the four years from 1997 to 2000 during which the Company made profits and paid dividends.

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$24,264,000 represented as follows:

	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
Director:			
Li, Douglas	5,000,000	4.54	22,700,000
Chan Kai Lung, Patrick	200,000	4.01	802,000
	<u>5,200,000</u>		<u>23,502,000</u>
Employees			
	100,000	4.03	403,000
	100,000	3.59	359,000
	<u>200,000</u>		<u>762,000</u>
	<u>5,400,000</u>		<u>24,264,000</u>

Possible future forfeiture of the options has been taken into account when assessing the expected life of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the year. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

A summary of the terms of the Share Option Scheme is set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules:

(a) Participants

The Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and/or any of its subsidiaries (the “Employees”), to take up options to subscribe for shares of the Company.

(b) Maximum number of shares available for issue

The maximum number of shares in respect of which options may be granted (including shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme (or under any other share option scheme of the Company pursuant to which options may from time to time be granted to the Employees) is that number which represents 10 per cent. of the issued ordinary share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme.

At 24 September 2002, the number of shares issuable under the options granted pursuant to the Share Option Scheme is 7,975,000 shares which represents 1.36 per cent. of the issued ordinary share capital of the Company.

(c) Maximum entitlement of each participant

No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the maximum aggregate number of shares calculated in accordance with paragraph (b) above.

(d) Time of exercise of option

The period during which an option may be exercised will be determined by the Directors in their absolute discretion, save that no option may be exercised later than 10 years after it has been granted.

(e) Payment on acceptance of option

A remittance in favour of the Company of HK\$1.00 by way of consideration for the grant of an option is required to be paid by the grantee upon acceptance of the option, and such remittance shall in no circumstances be refundable.

(f) Basis of determining the exercise price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme will be such price as the Directors in their absolute discretion determine, save that such price will not be less than a specified minimum. Such minimum price is whichever is the higher of: (i) the nominal value of a share; and (ii) 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five days immediately preceding the date of grant of the option on which there were dealings in the shares on the Stock Exchange.

The minimum price was amended by the new requirements of the Listing Rules effected on 1 September 2001, being the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

(g) Remaining life of the Scheme

The Share Option Scheme is valid until 16 October 2006.

In order to comply with the new requirements of the Listing Rules effected on 1 September 2001 in relation to share option schemes, the Directors propose the adoption of a new share option scheme and the termination of the existing Share Option Scheme at the forthcoming Annual General Meeting of the shareholders to be held on 15 November 2002. Details of the terms of the new share option scheme are set out in the circular sent together with this annual report.

Substantial shareholders

At 30 June 2002, the following parties (other than the Directors and Chief Executive of the Company) had interests of 10 per cent. or more of the issued share capital of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance or as notified to the Company:

Name of shareholders	Note	Number of shares	Percentage
Cellular 8 Holdings Limited ("Cellular 8")	1 and 2	159,053,465	27.22
Sun Hung Kai Properties Limited ("SHKP")	1 and 2	171,539,077	29.36
HSBC Holdings Plc.	3	172,718,805	29.56
BT (International) Holdings Limited	4	121,280,526	20.75
BT Holdings Limited	4	121,280,526	20.75
British Telecommunications Plc.	4	121,280,526	20.75

Notes:

1. For the purposes of the SDI Ordinance, the interest of Cellular 8 in the 159,053,465 shares of the Company noted above against the name of Cellular 8 is also attributed to SHKP on the basis that SHKP controls one-third or more of Cellular 8. The number of shares noted above against the name of SHKP therefore duplicates the interest of Cellular 8.
2. For the purposes of the SDI Ordinance, the same interest of Cellular 8 is also attributed to those subsidiaries of SHKP through which SHKP holds its interest in Cellular 8. These subsidiaries are TFS Development Company Limited and Fourseas Investments Limited.
3. The Directors understand that, for the purposes of the SDI Ordinance, the interest of SHKP in the 171,539,077 shares noted above against its name (and the interest of each of its subsidiaries referred to in note (2) above in the same 171,539,077 shares) is also attributed to certain subsidiaries of HSBC Holdings Plc. and to HSBC Holdings Plc. by reference to the interests which these companies hold (or are deemed to hold) shares of SHKP. The number of shares noted above against the name of HSBC Holdings Plc. (and such interests of any subsidiaries of HSBC Holdings Plc.) therefore duplicates the interest of SHKP in each case.
4. For the purposes of the SDI Ordinance, the interest of BT (International) Holdings Limited in the 121,280,526 shares noted above is also attributed to BT Holdings Limited and British Telecommunications Plc. on the bases that BT Holdings Limited controls one-third or more of BT (International) Holdings Limited and in turn, British Telecommunications Plc. controls one-third or more of BT Holdings Limited. The number of shares noted above against the name of each of BT Holdings Limited and British Telecommunications Plc. therefore duplicates the interest of BT (International) Holdings Limited in such shares.

Save as disclosed above, no other parties had registered as having an interest of 10 per cent. or more of the issued share capital of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance.

Purchase, sale or redemption of shares

During the year ended 30 June 2002, the Company repurchased 7,926,000 shares on the Stock Exchange. These repurchased shares were subsequently cancelled. Please refer to note 24c to the financial statements for details of the repurchases.

The aggregate price of the repurchased shares (before expenses) was HK\$69,636,250 of which HK\$68,843,650 was charged against the share premium. A sum equivalent to the nominal value of the repurchased shares, amounting to HK\$792,600 was transferred from retained profits to the capital redemption reserve.

Save as disclosed above, at no time during the year ended 30 June 2002 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

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

Percentage of purchases attributable to the Group's largest supplier	14.4
Percentage of purchases attributable to the Group's five largest suppliers	33.5

None of the Directors and their associates had an interest in the major suppliers noted above.

During the year, the Group sold less than 30 per cent. of its total goods and services to its five largest customers.

Connected transactions

1. Certain related party transactions as disclosed in note 27 to the financial statements also constituted connected transactions. In addition, the following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or ongoing for which the Stock Exchange has, subject to certain conditions, granted to the Company waivers from strict compliance with the relevant requirements of the Listing Rules.
 - (a) Certain subsidiaries of SHKP, a substantial shareholder of the Company, have leased premises to the Group for use as offices, retail shops and warehouses and have granted licences to the Group for the installation of base stations, antenna and telephone cables on certain premises owned by them. For the year ended 30 June 2002, rental and licence fees paid and payable totalled HK\$39,123,000.
 - (b) A wholly-owned subsidiary of SHKP provided general insurance services to the Group. For the year ended 30 June 2002, insurance premiums paid and payable were HK\$4,970,000.
 - (c) Certain wholly-owned subsidiaries of SHKP provided consultancy services to the Group. For the year ended 30 June 2002, the consultancy fees paid were HK\$115,000.

- (d) New-Alliance Asset Management (Asia) Limited, an associate of SHKP, has been appointed as the investment manager of the Group's Provident Scheme since October 1999. For the year ended 30 June 2002, no fee was paid by the Group as New-Alliance Management (Asia) Limited is remunerated by way of fee levied on funds under management.
- (e) The Group has paid consultancy and technical support fees to companies in which a non-executive Director, who has resigned during the year, has an interest. For the year ended 30 June 2002, the total fees paid were HK\$1,295,000.
- (f) British Telecommunications Plc. ("BT"), a substantial shareholder of the Company, and its subsidiary have provided consultancy services to the Group. For the year ended 30 June 2002, the consultancy fees paid were HK\$366,000.
- (g) The Group has subscribed to Mobility Leaders, a program organised by BT, which provides information sharing among the members. For the year ended 30 June 2002, the subscription fees paid were HK\$354,000.
- (h) The Group entered into contract with a wholly-owned subsidiary of BT for the provision of mobile portal services. For the year ended 30 June 2002, the total fees paid were HK\$951,000. The service was subsequently terminated during the financial year.

The above transactions have been reviewed by the Company's Independent Non-Executive Directors. The Independent Non-Executive Directors confirmed that these transactions were entered into by the Group in the ordinary course of business and on normal commercial terms or terms that were fair and reasonable so far as the shareholders of the Company are concerned.

The Independent Non-Executive Directors also confirmed that the transactions were entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable to the Group than terms available to or from independent third parties and that the aggregate amounts of the transactions for the financial year ended 30 June 2002 had not exceeded the relevant maximum amount capped for each category.

2. On 1 September 2000, a subsidiary of the Company, SmarTone (BVI) Limited subscribed for a 72 per cent. interest in the share capital of SmarTone Delta Asia (BVI) Limited and the remaining 28 per cent. interest was subscribed for by Delta Asia Group (Holdings) Limited.

Subsequent to the establishment of SmarTone Delta Asia (BVI) Limited, a shareholders' agreement between SmarTone (BVI) Limited and Delta Asia Group (Holdings) Limited was signed on 4 January 2001 whereby both shareholders agreed to establish a wholly-owned subsidiary "SmarTone - Comunicações Móveis S.A." for providing public mobile services in

Macau Special Administrative Region. The shareholders' agreement also stipulated that the shareholders would provide for the necessary financing, either through external financing or by way of shareholders' loan, to both SmarTone Delta Asia (BVI) Limited and SmarTone - Comunicações Móveis S.A. in proportion to their respective shareholding. The amount of non-interest bearing loans due to SmarTone (BVI) Limited at the balance sheet date was HK\$62,856,000.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by Hong Kong Society of Accountants.

The Audit Committee of the Company held a meeting on 18 September 2002 and reviewed the full year financial statements and reports of the Group for the year ended 30 June 2002. The Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Code of best practice

In the opinion of the Directors, during the accounting period covered by this annual report, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Non-Executive Directors were not appointed for specific terms. However, the Non-Executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

The financial information disclosed in this report complies with the disclosure requirements of Appendix 16 of the Listing Rules.

On behalf of the Board

Kwok Ping Luen, Raymond

Chairman

Hong Kong, 24 September 2002