

# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2003.

## 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 2003 are set out in the consolidated profit and loss account on page 49.

## Dividends

The Directors recommended the payment of a final dividend of HK\$0.27 per share (2002: HK\$0.07 per share) to the shareholders registered in the Company's register of members as at the close of business on 4 November 2003. In addition, the Directors also proposed to pay a special cash dividend of HK\$3.50 per share to the shareholders. The proposed final dividend and special cash dividend, together with the interim dividend of HK\$0.20 per share paid by the Company during the year, make a total distribution of HK\$3.97 per share for the financial year ended 30 June 2003.

## 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 45.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

## Distributable reserves

Distributable reserves of the Company at 30 June 2003 amounted to HK\$2,207,936,000 (30 June 2002: HK\$939,321,000).

## Donations

During the year, charitable and other donations made by the Group amounted to HK\$206,000 (2002: HK\$18,000).

## Fixed assets

Details of the movements in fixed assets are shown in note 15 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.

# REPORT OF THE DIRECTORS

## Directors and interests in contracts

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

- \* Mr. Raymond **Kwok** Ping-luen  
*Chairman*
- Mr. Douglas **Li**  
*Chief Executive Officer*
- Mr. Patrick **Chan** Kai-lung
- \* Mr. Ernest **Lai** Ho-kai
- \* Mr. Michael **Wong** Yick-kam
- \* Mr. Andrew **So** Sing-tak
- \* Mr. **Cheung** Wing-yui  
*(Appointed on 13 March 2003)*
- \*\* The Hon. Eric **Li** Ka-cheung, JP
- \*\* The Hon. **Ng** Leung-sing
- \*\* Dr. Sachio **Semmoto**  
*(Appointed on 24 September 2002)*
- \* Mr. Rick **Tang** Yet-san  
*(Resigned on 24 September 2002)*
- \* Mr. Peter Francis **Cross**  
*(Resigned on 22 January 2003)*
- \* Mr. Graham Goodfellow **Moore**  
*(Resigned on 22 January 2003)*
- \* Mr. Mario **Michael**  
*(Appointed on 24 September 2002 and  
resigned on 22 January 2003)*
- \* *Non-Executive Director*
- \*\* *Independent Non-Executive Director*

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Ernest Lai Ho-kai, Douglas Li and Michael Wong Yick-kam retire by rotation, and Mr. Cheung Wing-yui retires 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 39 to 43.

## Directors' interests and short positions

At 30 June 2003, the interests of the Directors, chief executive and their respective associates in shares and in respect of equity derivatives, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO were as follows:

### Interests in shares and underlying shares of the Company

Name of Director	Shares				Equity derivatives	Aggregate interests	Percentage of aggregate interests to issued capital
	Beneficial owner	Discretionary trust founder & trust beneficiary	Spouse or child under 18	Controlled corporation	Share options (Note)		
Raymond Kwok Ping-luen	—	698,767	—	—	—	698,767	0.11
Douglas Li	—	—	—	—	5,000,000	5,000,000	0.86
Patrick Chan Kai-lung	—	—	—	—	200,000	200,000	0.03

*Note: share options*

Name of Director	Outstanding at 1 July 2002	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	Outstanding at 30 June 2003
Douglas Li	5,000,000	5,000,000	—	5,000,000	5,000,000 (Note 1)
Patrick Chan Kai-lung	200,000	200,000	—	200,000	200,000 (Note 2)

*Notes:*

1. The options are exercisable at HK\$9.29 per share during the period from 10 February 2003 to 16 July 2011. The options can be exercised up to 20 per cent. from 10 February 2003, up to 40 per cent. from 17 July 2003, up to 60 per cent. from 17 July 2004, up to 80 per cent. from 17 July 2005 and in whole from 17 July 2006.
2. The options are exercisable at HK\$9.20 per share during the period from 2 May 2003 to 1 May 2012. The options can be exercised up to one-third from 2 May 2003, up to two-thirds from 2 May 2004 and in whole from 2 May 2005.

# REPORT OF THE DIRECTORS

## Interests in associated corporations

### 1. Interests in shares and underlying shares of Sun Hung Kai Properties Limited

Name of Director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Beneficial owner	Discretionary		Controlled corporation	Share options (Note)	Aggregate interests	
		trust founder & trust beneficiary	Spouse or child under 18				
Raymond Kwok Ping-luen	—	1,079,515,895*	—	—	75,000	1,079,590,895	44.96
Michael Wong Yick-kam	70,904	—	—	—	225,000	295,904	0.01
Ernest Lai Ho-kai	—	—	—	—	36,000	—	0.001
Eric Li Ka-cheung	—	—	—	18,000	—	18,000	0.0007
Ng Leung-sing	—	—	5,000	—	—	5,000	0.0002

\*Note: Of these shares, Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,056,338,347 shares, which represented the same interests and were therefore duplicated amongst these three persons for the purpose of the SFO.

Note: share options

Name of Director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2002	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	Outstanding at 30 June 2003
Raymond Kwok Ping-luen	16 July 2001	70.00	75,000	—	—	—	75,000
Michael Wong Yick-kam	15 February 2000	70.00	150,000	—	—	—	150,000
	16 July 2001	70.00	75,000	—	—	—	75,000
Ernest Lai Ho-kai	16 July 2001	70.00	36,000	—	—	—	36,000

All options granted and accepted can be exercised up to one-third during the second year from the date of grant, up to two-thirds during the third year from the date of grant, and in whole or in part during the fourth and fifth years from the date of grant, thereafter, the relevant options will expire.

### 2. Interests in shares and underlying shares of SUNeVision Holdings Ltd.

Name of Director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Beneficial owner	Discretionary		Controlled corporation	Share options (Note)	Aggregate interests	
		trust founder & trust beneficiary	Spouse or child under 18				
Raymond Kwok Ping-luen	—	1,742,500*	—	—	1,105,000	2,847,500	0.14
Michael Wong Yick-kam	100,000	—	—	—	540,000	640,000	0.03
Andrew So Sing-tak	—	—	—	—	400,000	—	0.02

\*Note: Of these shares, Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,070,000 shares, which represented the same interests and are therefore duplicated amongst these three persons for the purpose of the SFO.

*Note: share options*

Name of Director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2002	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2003
Raymond Kwok Ping-luen	28 March 2000	10.38	755,000	—	—	—	755,000
	7 April 2001	2.34	350,000	—	—	—	350,000
Michael Wong Yick-kam	28 March 2000	10.38	360,000	—	—	—	360,000
	7 April 2001	2.34	180,000	—	—	—	180,000
Andrew So Sing-tak	8 July 2002	1.43	—	400,000	—	—	400,000

*The above share options are exercisable in accordance with the terms of the relevant share option scheme and conditions of grant.*

### 3. Interests in shares of other associated corporations

Mr. Raymond Kwok Ping-luen had the following interests in the shares of the following associated corporations:

Name of associated corporation	Beneficial owner	Attributable holding through corporation	Attributable percentage of shares in issue through corporation	Actual holding through corporation	Actual percentage of interests in issued shares
Superindo Company Limited	10	—	—	—	10
Super Fly Company Limited	10	—	—	—	10
Splendid Kai Limited	—	2,500**	25	1,500	15
Hung Carom Company Limited	—	25**	25	15	15
Tinyau Company Limited	—	1**	50	1	50
Open Step Limited	—	8**	80	4	40

*\*\*Note: Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in these shares, which represented the same interests and were therefore duplicated amongst these three persons for the purpose of the SFO. Those shares were held by corporations in which they were entitled to control the exercise of one-third or more of the voting rights in the general meetings of those corporations.*

The interests of the Directors and chief executive in the share options of the Company and its associated corporations are being regarded for the time being as unlisted physically settled equity derivatives. The details of the share options of the Company are stated under the Share Option Schemes section below.

Save as disclosed above, at 30 June 2003, none of the Directors and chief executive (including their spouses and children under 18 years of age) and their respective associates had or deemed to have any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any of its associated corporations that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

# REPORT OF THE DIRECTORS

## Arrangement to purchase shares or debentures

Other than the share options as mentioned above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or of any other body corporate.

## Directors' interests in competing business

Upon the cessation of the Group's Internet service provision business during the year, which was previously regarded as competing with SUNeVision Holdings Ltd., an associated corporation of the Company and of whose board Messrs. Raymond Kwok Ping-luen, Michael Wong Yick-kam and Andrew So Sing-tak, Directors of the Company, are also directors, none of the Directors of the Company has any interest in any business which may compete with the business of the Group.

## Share Option Schemes

A new share option scheme has been adopted by the Company on 15 November 2002 (the "New Share Option Scheme") to replace the share option scheme which had been adopted on 17 October 1996 (the "Old Share Option Scheme") to comply with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company may grant options to the participants to subscribe for shares of the Company pursuant to the terms as set out in the New Share Option Scheme. A summary of the terms of the New Share Option Scheme will be set out below.

At 30 June 2003, the following share options granted to the Directors during the year pursuant to the New Share Option Scheme were still outstanding:

Name of Director	Date of grant	Exercise price HK\$	No. of options granted	Exercise period	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2003
Douglas Li	10 February 2003	9.29	5,000,000	10 February 2003 to 16 July 2011	—	—	5,000,000
Patrick Chan Kai-lung	10 February 2003	9.20	200,000	2 May 2003 to 1 May 2012	—	—	200,000

*The closing price of the shares of the Company as quoted by the Stock Exchange on 7 February 2003, the trading day preceding the date of grant of the above options was HK\$8.55.*

Other than the options stated above, no options had been granted by the Company to the other participants pursuant to the New Share Option Scheme.

The Old Share Option Scheme was terminated by the Company on 15 November 2002. Upon termination of the Old Share Option Scheme, no further options could be granted thereunder but in all other respects, the provisions of the Old Share Option Scheme shall remain in force and all options granted prior to termination shall continue to be valid and exercisable in accordance therewith. The following shows the movement during the year ended 30 June 2003 of the share options granted under the Old Share Option Scheme:

Date of grant	Exercise price HK\$	Exercise period	Outstanding at 1 July 2002	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2003
3 December 1996	16.10	1 January 1997 to 31 December 2003	53,000	—	—	53,000	—
14 April 1998	20.60	14 April 1999 to 13 April 2005	812,500	—	—	812,500	—
17 November 1999	27.70	17 November 2000 to 16 November 2007	1,609,500	—	—	1,609,500	—
22 March 2000	25.50	22 March 2001 to 21 March 2007	100,000	—	—	100,000	—
13 July 2001	9.20	13 July 2002 to 12 July 2008	100,000	—	—	100,000	—
17 July 2001	9.29	17 July 2002 to 16 July 2011	5,000,000	—	—	5,000,000	—
19 March 2002	8.97	19 March 2003 to 18 March 2009	100,000	—	—	100,000	—
2 May 2002	9.20	2 May 2003 to 1 May 2012	200,000	—	—	200,000	—

All the remaining and unexercised share options lapsed automatically upon the completion of the mandatory general offer by Cellular 8 Holdings Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited, pursuant to the terms of the Old Share Option Scheme.

Save as disclosed above, no share options were granted, exercised, cancelled or lapsed during the year.

### Valuation of the share options granted during the year

In assessing the value of the share options granted during the year ended 30 June 2003, the Black-Scholes option pricing model adjusted for dividends (the "Black-Scholes Model") was 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 to be paid by the Company, if any.

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In assessing the value of the share options granted during the year to Directors, 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
Douglas Li	10 Feb 2003	6 years	3.66%	29.10%	1.31%
Patrick Chan Kai-lung	10 Feb 2003	6 years	3.66%	29.10%	1.31%

- 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 represents the average dividend yield for the four years from 1999 to 2003.

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\$12,232,402 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\$
Douglas Li	5,000,000	2.35	11,756,471
Patrick Chan Kai-lung	200,000	2.38	475,931
<b>Total</b>	<b>5,200,000</b>		<b>12,232,402</b>

No adjustment has been made for possible future forfeiture 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 principal terms of the New Share Option Scheme is set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules:

(a) Purpose

The purpose of the New Share Option Scheme is to reward participants who have made a valuable contribution to the growth of the Group and to enable the Group to recruit and/or to retain employees who are regarded as valuable to the Group or are expected to be able to contribute to the business development of the Group.



(b) Participants

Any employee, agent, consultant or representative of the Company or any of the subsidiaries, including any director of the Company or any of the subsidiaries who has made valuable contribution to the growth of the Group based on his work experience, industry knowledge, performance, business connections or other relevant factors, will be eligible to participate in the Scheme at the invitation of the Directors.

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10 per cent. of the shares in issue on the date of adoption of the New Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30 per cent. of the shares in issue from time to time.

At 23 September 2003, the number of shares issuable upon the exercise of the options granted pursuant to the New Share Option Scheme is 5,200,000 shares which represents approximately 0.89 per cent. of the issued ordinary share capital of the Company.

(d) Maximum entitlement of each participant

The maximum entitlement for any participant is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the latest grant does not exceed 1 per cent. of the relevant class of shares in issue.

(e) Time of exercise of option

No option may be exercised later than 10 years after it has been granted and no option may be granted more than 10 years after the date on which the Scheme is adopted by the Company in general meeting.

(f) Payment on acceptance of option

Acceptance of offer to grant an option shall be sent in writing together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant must be received by the secretary of the Company within 28 days from the date of the making of such offer.

(g) Basis of determining the exercise price

The option price per share payable upon the exercise of any option will be determined by the Directors upon the grant of such option. It will be at least the higher of (i) the average closing price of a share as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such option; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the day of offer of such option, which must be a business day; and (iii) the nominal value of a share.

(h) Remaining life of the Scheme

The New Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the Scheme on 15 November 2002.

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A summary of the principal terms of the Old 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 Old 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 Old Share Option Scheme.

At 23 September 2003, no options are outstanding under the Old Share Option Scheme.

(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 Old 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 Old Share Option Scheme was terminated by the shareholders of the Company on 15 November 2002.

## Disclosable interests and short positions of shareholders under the SFO

At 30 June 2003, the following parties (other than the Directors and chief executive of the Company) had interests of 5 per cent. or more in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company:

Name of shareholder	Note	Number of shares interested	Percentage of shares to issued share capital
Cellular 8 Holdings Limited ("Cellular 8")	1 and 2	283,670,075	48.66
Sun Hung Kai Properties Limited ("SHKP")	1 and 2	298,091,397	51.13
Marathon Asset Management Limited		42,692,873	7.32

### Notes:

1. For the purposes of the SFO, the interest of Cellular 8 in the 283,670,075 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 SFO, 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.

Save as disclosed above, no other parties had registered as having an interest of 5 per cent. or more in the shares or underlying shares of the Company or having short positions as recorded in the register kept under section 336 of the SFO.

## Purchase, sale or redemption of shares

During the year ended 30 June 2003, the Company repurchased 3,107,500 shares on the Stock Exchange. These repurchased shares were subsequently cancelled. Please refer to note 24(b) to the financial statements for details of the repurchases.

The aggregate price of the repurchased shares (before expenses) was HK\$25,369,575 of which HK\$25,058,825 was charged against the share premium. A sum equivalent to the nominal value of the repurchased shares, amounting to HK\$310,750 was transferred from retained profits to the capital redemption reserve.

Save as disclosed above, at no time during the year ended 30 June 2003 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.

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## 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	19
Percentage of purchases attributable to the Group's five largest suppliers	39

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 28 to the financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and/or are 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 and associates of Sun Hung Kai Properties Limited ("SHKP"), the 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 2003, rental and licence fees paid and payable totalled HK\$55,716,000.
  - (b) Certain wholly-owned subsidiaries of SHKP provided general insurance services to the Group. For the year ended 30 June 2003, insurance premiums paid and payable were HK\$7,747,000.
  - (c) Certain wholly-owned subsidiaries of SHKP have provided consultancy services to the Group. For the year ended 30 June 2003, there were no such transactions and so no consultancy fees were paid.
  - (d) Certain subsidiaries of SHKP have contracted with the Group to provide leased line and IT outsourcing services respectively. For the year ended 30 June 2003, the leased line rentals and IT outsourcing services fees paid were HK\$120,000 and HK\$503,000 respectively.
  - (e) 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 2003, no fee was paid by the Group as New-Alliance Management (Asia) Limited was remunerated by way of fee levied on funds under management.
  - (f) British Telecommunications Plc., a substantial shareholder of the Company until 7 January 2003, and its subsidiary have provided consultancy services to the Group. For the year ended 30 June 2003, the consultancy fees paid were HK\$279,000.

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 Company 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 2003 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 engaging in public mobile services in the 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\$46,835,000.

### **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 8 September 2003 and reviewed the full year financial statements and reports of the Group for the year ended 30 June 2003. 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

**Raymond Kwok Ping-luen**

*Chairman*

Hong Kong, 23 September 2003





食油/沙拉油	
百佳	惠康
刀嘜粟米油 (2.9 公升)	
\$43.80	\$49.90
萬歲粟米油 (1.89 公升)	
\$33.80	\$29.90

## Smart spending

Be a smart spender...check prices at major supermarkets and the wide range of credit card privileges.