

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 30 June 2001.

Principal Activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 17 to the accounts.

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by principal activities is set out in note 2 to the accounts.

Results

The results of the Group for the year ended 30 June 2001 are set out in the consolidated profit and loss account on page 38.

Dividends

No interim dividend was declared by the Company during the year (2000: HK\$0.11 per share) and the Directors do not recommend the payment of a final dividend for the year ended 30 June 2001 (2000: HK\$0.05 per share).

Group Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five accounting years is shown on page 36.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

Distributable Reserves

Distributable reserves of the Company at 30 June 2001 amounted to HK\$975,525,000 (30 June 2000: HK\$965,584,000).

Donations

During the year, the Group made no charitable or other donations (2000: Nil).

Fixed Assets

Details of the movements in fixed assets are shown in note 13 to the accounts.

Share Capital

Details of the movements in share capital of the Company are shown in note 23 to the accounts.

Directors and Interests in Contracts

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

- * Mr. Kwok Ping Luen, Raymond
Chairman
- * Mr. Jean F.H.P. Mandeville
(Appointed on 19 September 2000)
- * Mr. Andrew James Green
- * Mr. Tang Yet San, Rick
Mr. Li, Douglas
Chief Executive Officer
(Appointed on 17 July 2001)
- * Mr. Bror Bengt Vilhelm Nordstrom
- * Mr. Tsim Tak Po, Paul
- * Mr. Chan Kai Lung, Patrick
- * Mr. Lai Ho Kai, Ernest
- ** The Hon. Li Ka Cheung, Eric, J.P.
- ** The Hon. Ng Leung Sing
- ** Dr. Lo Wing Yan, William, J.P.
- * Mr. Richard Paul Slogrove
(Resigned on 19 September 2000)
Mr. Ian Charles Stone
(Resigned on 17 July 2001)

- * *Non-Executive Director*
- ** *Independent Non-Executive Director*

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Lai Ho Kai, Ernest, Tang Yet San, Rick, Andrew James Green and Dr. Lo Wing Yan, William retire by rotation and Mr. Li, Douglas 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 31 to 35.

Directors' Interests

At 30 June 2001, the interests of the Directors and Chief Executive in the shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

1. Ordinary shares

| Name of Directors | Personal interests | Family interests | Corporate interests | Other interests | Total |
|-------------------------|--------------------|------------------|---------------------|-----------------|---------|
| KWOK Ping Luen, Raymond | 692,846 | Nil | Nil | Nil | 692,846 |
| TANG Yet San, Rick | 30,000 | Nil | Nil | Nil | 30,000 |

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

| Name of Directors | Note | Outstanding at 1 July 2000 | Granted | Exercised | Outstanding at 30 June 2001 |
|------------------------------|------|----------------------------|---------|-----------|-----------------------------|
| Ian Charles STONE | 1 | 383,000 | Nil | Nil | 383,000 |
| Bror Bengt Vilhelm NORDSTROM | 2 | 75,000 | Nil | Nil | 75,000 |

Notes:

- The options are exercisable at HK\$23.90 per share during the period from 14 September 2000 to 13 September 2007. Due to the resignation of the Director, the right to subscribe for 383,000 shares under the share options lapsed on 17 July 2001.
- The options are exercisable at HK\$20.60 per share during the period from 14 April 1999 to 13 April 2005.
- 50 per cent. of each option granted is exercisable in the first year after the option becomes exercisable and the remaining 50 per cent. is exercisable in full after the first anniversary of the option becoming exercisable.

Save as disclosed above, at 30 June 2001, none of the Directors and Chief Executive 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 a part of the business 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.

Substantial Shareholders

At 30 June 2001, the following parties (other than the Directors or Chief Executive of the Company) had an interest 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 | 26.72 |
| Sun Hung Kai Properties Limited ("SHKP") | 1 and 2 | 167,965,077 | 28.21 |
| HSBC Holdings Plc. | 3 | 167,965,077 | 28.21 |
| BT (International) Holdings Limited | 4 | 121,280,526 | 20.37 |
| BT Holdings Limited | 4 | 121,280,526 | 20.37 |
| British Telecommunications Plc. | 4 | 121,280,526 | 20.37 |

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 167,965,077 shares noted above against its name (and the interest of each of its subsidiaries referred to in note 2 above in the same 167,965,077 shares) is also attributed to certain subsidiaries of HSBC Holdings Plc. (namely, HSBC International Trustee Limited and HSBC Holdings B.V.) 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 2001, the Company repurchased 11,407,000 shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were subsequently cancelled. Please refer to note 23c to the accounts for details of the repurchases.

The aggregate price of the repurchased shares (before expenses) was HK\$108,519,650 of which HK\$107,378,950 was charged against the share premium. A sum equivalent to the nominal value of the repurchased shares, amounting to HK\$1,140,700 was transferred from retained profits to the capital redemption reserve.

Save as disclosed above, at no time during the year ended 30 June 2001 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 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 | 10.6 |
| Percentage of purchases attributable to the Group's 5 largest suppliers | 31.2 |

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 5 largest customers.



Connected Transactions

1. Certain related party transactions as disclosed in note 26 to the accounts also constituted connected transactions. Besides, there are a number of existing arrangements and transactions between certain connected persons (as defined in the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and the Company, which are set out in note 26 to the accounts.

The Stock Exchange of Hong Kong Limited granted to the Company waivers from strict compliance with the relevant requirements of the Listing Rules in respect of the above transactions.

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 2001 had not exceeded the relevant maximum amount capped for each category.

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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 the 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\$17,476,000.

Audit Committee

The Audit Committee of the Company held a meeting on 12 September 2001 and reviewed the full year financial statements and reports of the Group for the year ended 30 June 2001. 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 accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse as auditors of the Company following the merger of Price Waterhouse with Coopers & Lybrand.

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 were 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 has also been in compliance 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 2001